

# 2001/2002 Annual Report & Accounts

# Key Results

			2001-02	2000-01
<b>Group results</b>				
Turnover	m	down 10.1%	8,340	9,278
Operating (loss)/profit	m	n/m	(110)	380
(Loss)/profit before taxation	m	n/m	(200)	150
Attributable (loss)/profit for the year	m	n/m	(142)	67
Equity shareholders' funds	m	down 5.1%	2,207	2,325
Basic (loss)/earnings per share	p	n/m	(13.2)	6.2
<b>Key financial statistics</b>				
Airline operations yield	p/RPK	up 4.7%	6.67	6.37
Operating margin	%	down 5.4 points	(1.3)	4.1
Net debt/total capital ratio	%	up 1.5 points	66.0	64.5
<b>Operating statistics</b>				
Passengers carried group	'000	down 10.0%	40,004	44,462
Revenue passenger kilometres group	m	down 13.7%	106,270	123,197
Revenue tonne kilometres group	m	down 13.9%	14,632	16,987
Available tonne kilometres group	m	down 9.3%	22,848	25,196
Passenger load factor group	%	down 1.0 points	70.4	71.4



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## Chairman's Statement

The Group incurred a pre-tax loss of £200 million, compared to a profit of £150 million in the previous year. No interim dividend was paid and the Board has not recommended that any final dividend be paid.

### Year in review

While the financial result is disappointing, it will come as no great surprise to shareholders. Any saving grace stems from the fact that our actual deficit for the year is significantly lower than many expectations; also from encouraging financial improvements in the last quarter. It is the first annual pre-tax loss to be recorded by your company since 1982.

This was by no means the first difficult year we have encountered in recent times, but it has been the worst. With widespread economic downturn, the lingering effects on UK travel and tourism of foot and mouth disease and the relatively high value of Sterling, plus the grounding of Concorde, the situation was already tough. Then came the events of September 11th and their global repercussions.

The effects on the industry as a whole and on many individual airlines, principally the major inter-continental carriers, have been dire. For some, they have been devastating. The International Air Transport Association has confirmed its earlier prediction of a US\$12 billion collective industry loss for 2001. The no-frills carriers have been the exception for a number of special reasons: they are building a new market; they concentrate exclusively on short-haul activities; they are still enjoying start-up growth trends; and do not offer interline facilities.

For your company, the situation brought about a profit decline of some 70 per cent over the first six months of the year. In the traditionally lucrative second quarter, we broke even. During the week of the terrorist attacks, the closure of US airspace resulted in a 60 per cent fall in passenger numbers and a revenue loss of £48 million (although we subsequently received £22 million in compensation from HM Government, under the European Union's programme of exceptional support for airlines). The nature of September's terrorism prompted an insurance crisis and we are grateful to HM Government for its prompt response to the situation. Had we not received its continued provision of guarantees to cover the differences between insurance cover available in the market and the minimum required to operate, we would have grounded the British Airways fleet. We took steps to secure liquidity and extra business protection schemes were put in place. The closing cash balance of £1.2 billion was the largest year-end balance since privatisation.

In the months after September, the decline in business travel, notably across the North Atlantic; and intensified competition from no-frills operators in Europe affected financial performance.

Existing economic downturn was already being confronted with a strategy of tight capacity management and cost control. After September 11th, significantly more drastic action was clearly necessary. It has involved comprehensive root and branch review of our cost structure, including payroll; network operation; fleet complement; and business strategies. In February, we announced the result of the strategic review known as 'Future Size and Shape.' Unanimously approved by your Board, it re-defines the business of British Airways and the way in which your company will deliver necessary economic and competitive reform, as the Chief Executive explains in his report.

Urgent reaction to the post-September crisis included moves to resuscitate the market with an innovative range of special offers and incentives. As statistics show, they were successful but caused yield to be diluted from the level we would normally have expected.

Total revenue for the year amounted to £8.3 billion, a reduction of 10 per cent. The 40 million passengers carried also represented a decline of 10 per cent over the previous year, virtually in line with the 9 per cent capacity reduction. Passenger yield for the year improved by almost 5 per cent, but deteriorated by 1.5 per cent in the last quarter. Seat factor over the year decreased marginally, but showed considerable improvement in the final three months. Cargo volume dropped by 17 per cent to 755,000 tonnes, with yield reduced by 2 per cent.

There have been positive aspects to the year. Most notable was the resumption of supersonic travel across the North Atlantic in November. Concorde's return was greeted with acclaim and helped rally the flagging trans-Atlantic travel market. The other important development was Government approval to build Terminal 5 at Heathrow. It means that work can begin for the long-awaited new terminal to be open for business in 2007. As the Chief Executive points out, the creation of adequate operating infrastructure in the UK, for the long-term, is an immediate priority.

### Alliance development

Your company's bid to establish a fully-collaborative partnership with American Airlines, along the lines of those enjoyed by competitor US and European airlines, was abandoned in February. Our joint application to the US Department of Transportation for anti-trust immunity was withdrawn on the grounds that there was little chance of an open skies agreement being reached between the two governments, or of an acceptable set of conditions being agreed. Under the circumstances, the price of the partnership would have been too high and not in the best interests of either company or their shareholders. Nevertheless, British Airways and American Airlines remain committed to building our marketing relationship and co-operating in ways permitted under the terms of the air services agreement between our two countries. We are also developing our partnership within the **oneworld™** alliance which now comprises eight member airlines and which is steadily increasing its scope and impetus.

Your company believes that the time has come for governments to change the out dated economic regulatory framework on which air transport operates. No other industry sector remains shackled by the constraints of national sovereignty and archaic ownership rules. The present situation militates against normal business development and we will continue to press for legislative reform.

### Investments and disposals

At the beginning of the year under review, the Secretary of State for Trade and Industry allowed our bid to acquire British Regional Air Lines Group (BRAL) to go ahead without reference to the Competition Commission. The acquisition was completed in May, 2001. BRAL was consolidated with our wholly-owned subsidiary, Brymon Airways, under the name of British Airways CitiExpress, on March 31, 2002. During the current year, two further subsidiaries, British Airways Regional and Manx Airlines will be integrated with British Airways CitiExpress.

In April, 2001 we acquired a 50 per cent holding in Accoladia Ltd., a new company formed in partnership with Thomas Cook Holdings Ltd., to which the UK outbound business of British Airways Holidays has been transferred. The disposal of Go Fly Ltd. to 3i plc was completed in June, 2001.

In May, 2002, an agreement was reached to sell a 70 per cent shareholding in World Network Services, our data management company based in India, to Warburg Pincus, the private equity investor.

Measures to reduce overhead costs include a commitment to realising £500 million in property and aircraft disposals. The work began in the year under review and by May, 2002, more than half of the target had been achieved. Recently, we concluded a binding agreement to grant easyJet an option of buying our German subsidiary, Deutsche BA, by March 31, 2003.

## Customer service

As well as tackling costs and improving efficiency, our strategies also concentrate on building our established strengths, especially our strong customer service ethos, commitment to quality and operational integrity. Investment in product and customer service innovation, in the air and on the ground, continued as planned during the year and is setting us well ahead of our competitors. In particular, the new flat-bed seats in our Club World cabins have been received with much approval by business travellers.

## Our people

The year's events have been exceptionally difficult for our people. Nevertheless, they have been stoic, very supportive and utterly professional in their response to corporate and personal adversity. Following September 11th, many thousands of anxious passengers were stranded on both sides of the Atlantic and I pay tribute to all our employees who worked tirelessly – many voluntarily – to provide care, comfort and an eventual flight home. We saw the people of British Airways at their very best during those critical days. The performance of everyone has continued at a high level and I am grateful to all of our team throughout the world. We are dependent on them for our recovery and future success.

Company restructure involves a 20 per cent manpower reduction. It is being achieved on a voluntary basis (including elected severance or early retirement) and we thank all those who have left, or are leaving, for their service to your company.

I want to make special mention of the cuts in pay which were accepted by so many of our people, during the difficult, latter part of the year. We are grateful to each of them for putting their company and commitment to each other before personal self-interest.

## Pensions

Shortly after the end of the year under review, we announced the decision to change the pension provision for any future UK employees, moving from a defined benefit final salary basis, to a defined contribution basis, from autumn 2002. This followed a thorough review of pension arrangements, taking into account a changing competitive environment, new accounting rules (FRS17), market volatility and rising life expectancy. The move gives the company greater certainty over long-term employment costs.

The pension benefits of New Airways Pension Scheme (NAPS) and Airways Pension Scheme (APS) members, both serving staff and pensioners, are unaffected.

## Board changes

During the year, there were a number of changes to Board membership. John Rishton and Captain Michael Jeffery joined the Board. Derek Stevens and Captain Colin Barnes retired

after 12 and 10 years' service, respectively, as Board members. We thank them for their outstanding service to your company.

Michael Davies and the Hon Raymond Seitz retire at the annual general meeting (AGM) and will not be seeking re-election. As our longest-serving non-executive director, Michael Davies has played a significant role in helping to guide this company to its successes and through some of its toughest challenges. His expertise and wise counsel have made an enormous contribution to British Airways, for which we are immensely grateful. Raymond Seitz, who is retiring at his own request, also leaves with our thanks and appreciation for his substantial contribution. His perspective on international affairs in general and specific knowledge of the important US market, in particular, have been highly valued.

Dr Ashok Ganguly, Lord Renwick and I will be seeking re-election at the AGM in July. I shall be seeking re-election for two years.

At the AGM, you will be asked to elect Maarten van den Bergh, Chairman of Lloyds-TSB, as a new non-executive director, for a term of three years.

These changes will reduce the size of the Board to 11.

## Outlook

Reform and restructuring against a substantially changed competitive background are well under way. The concentration is on providing customers with the services they want at prices which are of value, and at costs which make a satisfactory return for shareholders.

The current year is one of transition and still subject to global economic and political uncertainty. The market is expected to remain soft; but further capacity cuts should help to underpin yields and to support increases in seat factors. In a weak revenue environment, costs remain the focus.



Lord Marshall of Knightsbridge, Chairman

## Statement from the Chief Executive

This year has been the toughest in our history. The impact of the tragic terrorist attacks on America in September reverberated throughout our industry. British Airways adapted swiftly to the changing circumstances.

Even before the terrorist attacks, market conditions were tough and we were taking appropriate action.

We were progressing our plans at Gatwick – transforming it into a base for point-to-point shorthaul flights with a reduced number of longhaul routes.

Our strategy to reduce fragmentation in our UK regional operations was also advancing with the merger of the British Regional Air Lines Group and Brymon Airways to create British Airways CitiExpress. Later this year, Manx Airlines and British Airways Regional will join this new entity, giving us a single business unit for all UK regional operations.

We had filed for anti-trust immunity with our alliance partner, American Airlines, and were making huge efforts to return Concorde to the skies.

The US terrorist attacks irrevocably changed the landscape of our industry. We acted fast to conserve cash and control costs. We reduced capacity by grounding aircraft, pulling off some routes and reduced frequencies on others. We worked hard to restore confidence in air travel by implementing additional security measures – reinforcing cockpit doors, introducing extra searches of passengers and hand baggage, and banning flight deck visits.

We targeted 7,200 voluntary manpower reductions. We put a stop to new capital spend, advertising, sales promotion and recruitment. We also raised finance against existing aircraft. We worked with our trade unions and staff to deliver savings and I would like to thank them for their supportive and sensible approach, while still endeavouring to deliver high levels of customer service. They have done an excellent job and continue to do so in the face of adversity.

### Future size and shape

In our efforts to return the airline to profitability, we also launched a further wide-ranging internal review of the business, called 'Future Size and Shape'.

While this work was in progress, the US Department of Transportation ruled on our alliance with American Airlines. Both airlines found the regulatory price too high and opted to reject the offer. It was the right decision for the business, for our shareholders and for our staff.

We continue to pursue ways to deepen our alliance with American Airlines under the current regulatory framework and **oneworld**, now the most international global alliance, remains a priority for us. We are as determined as ever to develop relationships with our **oneworld** partners.

The outcome of the 'Future Size and Shape' review, announced in February, signalled a real change for us as we took further steps to remove unprofitable capacity, reduce costs and strip complexity out of the business.

We set about simplifying our fleet, our fares, and our business systems. The introduction of the Amadeus computer

reservations system across the airline will realise significant cost benefits and will help us deliver better customer service.

### Cost efficiencies

The company has its sights set on a 10 per cent operating margin. This will be supported by a £650 million cost saving each year from March, 2004, of which £450 million will be secured by the end of this financial year.

In addition to the 7,200 manpower reductions announced on September 20, 2001, we pledged to remove a further 5,800 manpower reductions from our business. In a further move to control long-term costs, we have announced a change in pension arrangements for future UK staff. This does not affect any existing members of our two main UK pension schemes.

Our shorthaul business must adapt to provide a strong competitive response to the no-frills carriers. We are marrying what they do well with what we do best. We have started to change our shorthaul pricing structure and schedules and are now giving business travellers and holiday makers lower fares, greater flexibility and more choice.

### Business strategy

As part of our e-business strategy, we have launched a new on-line booking service, called Fare Explorer, which is making significant gains for us. It is a hit with our customers.

Whilst fixing the core business is our key priority, I am only too aware of the continuing constraints around airport space and capacity.

Heathrow – now the only European hub that serves fewer destinations than it did a decade ago – is being overtaken by Paris, Amsterdam and Frankfurt. It is vital that we restore Heathrow's pre-eminence. The positive decision on Terminal 5 is a step in the right direction. We have also joined Freedom to Fly which is a coalition of airports, airlines, trade unions, business and tourism groups who have come together to promote sustainable growth in air transport.

The events of September 11th have already led to the collapse of two European national carriers. Given the large number of airlines in Europe, I believe further consolidation is inevitable. However, for this to take place in a way that benefits the industry as a whole, we need to extend deregulation beyond national borders.

Concorde's celebrated return to the skies and the positive decision on Terminal 5 are two of the highlights in what has been a challenging and difficult year.

The overall market outlook remains soft but the swift and decisive actions we have taken show we are determined to return the business to acceptable levels of profitability. Throughout the year ahead, our drive on costs will continue with tight capacity management and cost control. These are key to our 'Future Size and Shape' recovery strategy.



Rod Eddington, Chief Executive

# Operating and financial review

## Summary

Group losses before tax for the year were £200 million; at an operating level losses were £110 million.

## Business performance

Operating results were adversely affected by the weakening global economy, the impact of the foot and mouth epidemic in the UK and effects of the September 11th US terrorist attacks. As a result, passenger and cargo revenues fell significantly.

Although cost efficiency actions had already been initiated in the first half of the year, steps were taken immediately after September 11th to reduce capacity and manpower, as well as to implement cash conservation measures. The outcome of the 'Future Size and Shape' review announced in February identified the longer term structural changes that are necessary to support a 10 per cent operating margin. These included actions on capacity, manpower and other costs together with a new shorthaul sales proposition to compete more effectively with the no-frills carriers.

## Background to financial performance

The following table sets out the year-over-year percentage changes in group operating revenue and in selected operating statistics for the two years ended March 31, 2002:

	per cent (Decrease)/Increase Year ended March 31	
	2002	2001
Group operating revenue	(10.1)	3.8
Group operations		
Volume (RTK)	(13.9)	(1.3)
Capacity (ATK)	(9.3)	(2.5)
Yield (Revenue/RTK)	4.2	5.6

## Turnover

Group operating revenue fell in the year by 10.1 per cent to £8,340 million. Traffic revenue from airline operations (passenger and cargo) accounts for approximately 91 per cent of group operating revenue. For the twelve month period, traffic revenue fell by 10.2 per cent to £7,571 million on a flying programme 9.3 per cent smaller in ATKs. The ATK reduction reflected a continuation of our strategy, which was confirmed and accelerated post September 11th. At a group level, the disposal of go further reduced capacity, partially offset by increases due to the acquisition of British Regional Air Lines Group (BRAL).

Airline operations passenger traffic declined 13.7 per cent, whilst capacity (ASKs) reduced by 12.4 per cent. Passenger load factor fell only 1.0 point compared with 2000/01 to 70.4 per cent. Passenger yield (passenger revenue per RPK) improved by 4.7 per cent for the full year.

Cargo volumes (CTKs) were down 14.8 per cent compared with last year whilst yields fell by 2.0 per cent. Cargo revenue was down 16.6 per cent from £579 million to £483 million.

## Expenditure

Unit costs (net operating expenditure per ATK) were 5.2 per cent higher than a year ago. The average number of employees in the group, in terms of manpower equivalent (MPE), fell by 3.8 per cent to 60,468 and productivity (ATKs per MPE) was down by 5.7 per cent.

## Operating expenses

	Year ended March 31		
	2002	2001	per cent (Increase)/ Decrease
	(£ million)	(£ million)	
Employee costs	2,329	2,376	2
Future Size & Shape restructuring costs	80		n/a
Depreciation and amortisation	770	715	(8)
Aircraft operating lease costs	199	221	10
Fuel and oil costs	1,028	1,102	7
Engineering and other aircraft costs	673	662	(2)
Landing fees and en route charges	615	645	5
Handling charges, catering and other operating costs	1,110	1,303	15
Selling costs	824	1,135	27
Accommodation, ground equipment costs and currency differences	822	739	(11)
	8,450	8,898	5

Employee costs before restructuring fell by 2.0 per cent to £2,329 million primarily reflecting reduced staff numbers from efficiency actions taken post-September. In total MPEs, at group level, were down 7,000 by year end compared with August, 2001.

Of the estimated £200 million in restructuring costs relating to the 'Future Size and Shape' review, £80 million has been provided in the year to cover costs associated with the delivery of the initial phases of the programme.

Depreciation and amortisation costs increased by 7.7 per cent to £770 million reflecting the increased value of the aircraft fleet, principally from the addition of Boeing 777s and Airbus and additional product embodiment costs. Aircraft operating lease costs reduced 10.0 per cent to £199 million as a result of the disposals of Boeing 737-200s and the Boeing 737-300s operated by go, partially offset by the effects of the BRAL acquisition.

Fuel and oil costs fell by 6.7 per cent to £1,028 million due to a reduction in fuel price, reduced flying, efficiencies from smaller, newer aircraft and the disposal of go.

Engineering and other aircraft costs increased by 1.7 per cent to £673 million reflecting increased insurance costs following September 11th, write-downs of expendable stock, and the effects of the BRAL acquisition. This was partially offset by reductions in subcontract costs, cost efficiencies, volume savings driven by changes in fleet type and savings from the disposal of go.

Landing fees and en route charges fell by 4.7 per cent to £615 million. This principally reflects benefits from reduced flying and efficiencies. Handling charges, catering and other operating costs decreased by 14.8 per cent to £1,110 million, as a result of reduced passenger numbers and cost efficiencies across the operational areas.

Selling and marketing costs fell by 27.4 per cent to £824 million. The introduction of the new commission structure in the UK, reduced sales volume and lower advertising and promotional activity were the main reasons for this reduction, only partly offset by exchange rate effects and the acquisition of BRAL.

Accommodation, ground equipment costs and currency differences increased 11.2 per cent to £822 million. This reflected costs of outsourcing, implementing new systems, increased property costs for new facilities, and exchange differences.

The drive for efficiency improvements continued throughout the year and focused on the following areas:

- Improving productivity
- Cost of sales reduction
- Aircraft utilisation
- e-business exploitation
- Procurement efficiency
- Information technology

The outcome of the 'Future Size and Shape' review, announced in February, emphasised our commitment to continued focus on manpower and capacity reductions as well as further reductions in selling and distribution costs.

## Geographical analysis

At the operating profit level, most regions suffered from reduced economic activity, and the resulting traffic loss in the aftermath of September 11th.

Least affected was Africa, where strategic reductions in capacity saved operational costs and raised load factors, resulting in no material change in operating profit for the region.

Product improvements on Americas routes preserved the premium/economy mix at a time of falling loads and the region was again the most profitable. The Far East and Australasia result was impacted by lower traffic levels and increased fuel costs and aircraft charges. Seat factor fell 3.0 points, although improved cabin mix increased passenger yields.

Overall reduction in shorthaul revenue (RPK down 9 per cent) was matched by reductions in capacity thereby maintaining seat factors at the same level as last year. The second half of the year was particularly difficult for the premium business resulting in declining yields due to cabin mix and a significant worsening in the total shorthaul result.

## CitiExpress

During the year, British Airways announced the formation of British Airways CitiExpress Limited created through the merger of its wholly-owned subsidiaries BRAL (acquired in May, 2001), and Brymon Airways. Launched on March 31, 2002, British Airways CitiExpress becomes the second largest regional airline in Europe. During the current year, two further subsidiaries, British Airways Regional and Manx Airlines, will be integrated with British Airways CitiExpress.

## Alliance benefits

The oneworld alliance includes eight airline members; British Airways, Aer Lingus, American Airlines (AA),

Cathay Pacific, Finnair, Iberia, LanChile and Qantas. Co-operation across the alliance ensures a number of areas that benefit both customers and airline effectiveness. oneworld offers a substantial package of customer benefits, including reciprocal reward and recognition programmes, common lounge access, smoother transfers, increased customer support and greater value.

Post September 11th the oneworld strategy has focused on developing the bilateral relationships within the existing carriers as well as maximising cost saving opportunities. In January, 2002, the US Department of Transportation's conditions for an anti-trust immune deal with AA were deemed by BA/AA to be too onerous to proceed with the plans. Both parties remain committed to an alliance relationship and are still working together on alternative commercial opportunities, not requiring anti-trust immunity, in a number of areas. Co-operation within the oneworld framework continues to develop alongside the bilateral discussions.

British Airways and Aer Lingus introduced additional codesharing operations on UK - Ireland routes, and discussions on further alliance activity continues. The alliance provides incremental flows between Ireland and BA's services to Europe, North America and other key longhaul destinations.

The alliance with Cathay Pacific continues to add value. During the year the two airlines expanded bilateral co-operation with codesharing on Cathay Pacific services to Auckland and Kuala Lumpur, as well as selected British Airways services in Europe. Exploration of further development opportunities continues.

## Qantas

The eight year relationship with Qantas is British Airways' longest standing and deepest alliance relationship. Under the Joint Services Agreement (JSA) there is full strategic, tactical and operational co-operation on all of British Airways' and Qantas' flights which serve markets between the United Kingdom and Continental Europe, Southeast Asia and Australia. This co-operation continues to strengthen and provides customers with improved flight departure times, routings and value for money, offering the very best of customer service to all passengers. In particular, the number of services operated to the key Australian points of Sydney and Melbourne has been increased and the British Airways brand is available in Melbourne again after an absence of several years.

British Airways and Qantas continue to co-ordinate sales and marketing activities worldwide, and to share all costs and revenues on the JSA routes, giving both companies an incentive to improve the joint business. Additional value has been generated with cost saving and revenue co-operation across almost all functions.

Qantas' pre-tax profit for the six months ended December 31, 2002 (included in the March 31, 2002 result) amounted to A\$231.3 million, a decrease of 44.5 per cent on the corresponding period last year. Group profit after tax amounted to A\$153.5 million, down 41.6 per cent. Revenue for the six months was A\$5.7 billion, up 11.1 per cent compared to last year. Passenger revenue increased by 11.7 per cent and was due to growth in RPKs of 5.1 per cent and an increase in yield of 6.2 per cent.

Overall capacity grew by 5.3 per cent compared with the prior half-year. However after the effects of September 11th, and the collapse of Ansett on September 14, 2001, Qantas moved capacity from the international network to the domestic network. International capacity reduced by 1.1 per cent across the period and domestic capacity increased by 28.6 per cent.

Total expenditure, including interest, increased by 16.0 per cent to A\$5.4 billion mainly due to costs associated with the increase in capacity, including the cost of wet-leased aircraft, together with higher fuel and engineering costs. Cost per ASK increased by 11.9 per cent. Excluding the effects of foreign exchange rate movements, total expenditure increased by 12.7 per cent.

In October, 2001, and December, 2001, Qantas issued new shares by way of an institutional placement and shareholder placing respectively. British Airways did not take up its allocation which resulted in the dilution of the group's shareholding from 25 per cent to 21.4 per cent. As a consequence the number of directors we can appoint reduced to two.

## Iberia

Following the acquisition of a 9 per cent stake in Iberia in 2000, work has been undertaken to generate value through commercial co-operation, including new codeshares on Iberia's Madrid – Lima flights and on British Airways' Heathrow – Bangkok services. Iberia has confirmed its intention to remain in the oneworld alliance and to develop its partnership with British Airways.

Iberia's loss before tax for the 12 months to December 31, 2001 (included in the March 31, 2002 result) was Euro 85.2 million, compared to a profit before tax last year of Euro 221.4 million.

## Franchising

As at March 31, 2002 there were 8 franchises operating to 93 destinations of which 67 are additional to the British Airways mainline network. During the year, Regional Air based in Kenya became a new franchise partner, and both BASE Airlines and National Jet Italia (NJI) ceased operations.

## Share of operating profit in associates

British Airways' share of operating profits from associated undertakings decreased by £42 million to £22 million during the year, principally due to reduction in the operating results of Qantas and Iberia. In April, 2001, in partnership with Thomas Cook Holdings Limited, British Airways acquired a 50 per cent holding in a newly formed company, Accoladia Ltd, into which the outbound business of British Airways Holidays was transferred.

## Profit on sale of fixed assets and investments

Profits on disposals of fixed assets and investments for the year were £145 million, reflecting primarily the disposal of our investment in go in June, 2001. Also disposed during the year was our investment in France Telecom (formerly shares held in Equant) and other fixed assets; aircraft disposals included 8 Boeing 747-200 and 18 757-200. This represents an improvement of £214 million compared with last year, which saw a loss on our disposal of Participations Aéronautiques (the holding company for Air Liberté).

On May 8, 2002, we announced the signing of a binding deal with easyJet for the sale of Deutsche BA (DBA). Under the terms of the 'heads of agreement' British Airways will grant easyJet the option to buy 100 per cent of DBA, on or before March 31, 2003.

## Net interest payable

Net interest expense for the year was £278 million. This included a book credit for the revaluation of yen debts (used to fund aircraft acquisitions) of £49 million, compared to a credit the previous year of £73 million. The revaluation – a non cash item required by standard accounting practice – results from the weakening of the yen against sterling.

## Other income

Other income includes £22 million received from the UK Government as compensation primarily for the closure of US airspace immediately following September 11th.

## Taxation

The analysis of the tax charge is set out in Note 11 to the accounts.

There is no tax payable on operating results in the UK. During the year the group has remitted profits to the UK from subsidiaries and associates including those in Australia and Spain. The UK tax charge arising on such profits has been offset partially by credits for taxes paid overseas and by other loss surrenders. No tax arises on profits on disposals as such profits are covered by tax losses from current and prior periods.

During the year the company implemented Financial Reporting Standard 19 'Deferred Tax'. As a result the company has recognised deferred tax on the full liability method effective April 1, 2001. The deferred tax liability is included on balance sheet and at March 31, 2002 amounts to £1,031 million (see note 34). Comparatives have also been restated as described in Note 11.

## Earnings per share

For the twelve month period, losses attributable to shareholders were £142 million, equivalent to a loss of 13.2 pence per share, compared with earnings of 6.2 pence per share last year.

## Aircraft fleet changes

The number of group aircraft in service at March 31, 2002 was 360, an increase of 22 on the prior year. The increase primarily reflects the acquisition of BRAL with 12 Jetstream 41, 13 British Aerospace ATP, 21 Embraer RJ145 and 5 British Aerospace 146 in service at year end. The sale of go reduced Boeing 737-300 aircraft by 13. Other changes, in line with the ongoing fleet strategy, included new deliveries of 5 Boeing 777, 12 Airbus A319, 3 Airbus A320, 2 Boeing 737-300, 1 Avro RJ100 and 1 Embraer RJ145. Disposals included 8 Boeing 747-200, 18 Boeing 757-200, 2 Boeing 737-300, 3 Boeing 737-400, 1 ATR72 and 1 DHC-8. In addition, 5 Boeing 747-200 and 4 Boeing 757-200 are stood down awaiting disposal and 2 Boeing 737-300 went into service having previously been undergoing pre-service preparation at March 31, 2001.



## Capital expenditure

Group capital expenditure on tangible assets is set out in Note 15e to the accounts.

The following table summarises group capital expenditure in the two years ended March 31, 2002:

£ million	Year ended March 31	
	2002	2001
Aircraft, spares, modifications and refurbishments (net of refund of progress payments)	739	1,192
Property and equipment	133	220
	872	1,412
Investments	44	49
	916	1,461

In addition, the acquisition of BRAL in May, 2001, increased the tangible asset balance by £161 million.

Capital expenditure authorised and contracted for but not provided in the accounts, amounts to £749 million (2001: £1,160 million). The outstanding commitments include £25 million which relate to the acquisition of 2 Embraer aircraft on order, and £680 million which relates to the acquisition of Airbus A320 family aircraft scheduled for delivery over the next four years. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

At March 31, 2002, British Airways had unused committed financing facilities of US\$155 million (expires March 31, 2003) a further US\$483 million facility (expires November 19, 2013) and a committed short-term unsecured revolving credit facility of US\$100 million (expires November 15, 2002) together with unused overdraft facilities of £40 million. Undrawn uncommitted money market lines of £60 million were held with a number of banks.

## Working capital

At March 31, 2002, net current liabilities were £642 million, down £116 million on last year. This change principally reflects higher short-term loans and deposits and cash excluding overdrafts (£283 million), and reduced sales in advance of carriage primarily as a result of lower revenue, together with a reduction in trade creditors, due to reduced operational expenditure. These were partially offset by a reduction in debtors, due to lower volumes and revenue, and reductions in stock.

## Cash flow

Net cash inflow from operating activities totalled £866 million. Investment in tangible fixed assets amounted to £757 million, a reduction of £358 million from last year. The sale of tangible fixed assets and investments, including interests in subsidiary undertakings, generated proceeds of £469 million.

## Leases and other financing arrangements

The following table sets out the movements in loans and capital obligations under finance leases and hire purchase arrangements for the two years ended March 31, 2002:

£ million	Finance leases and hire purchase		Total 2002	Total 2001
	Bank and other loans	arrange-ments		
Balance at April 1	1,041	6,002	7,043	6,944
New loans raised	495		495	214
Assumed from subsidiary				
acquired during the year	64	53	117	-
Divested from subsidiary				
undertakings sold during the year				(69)
Loans, finance leases and hire				
purchase arrangements undertaken				
to finance the acquisition of aircraft		512	512	663
Repayment of amounts borrowed	(57)	(655)	(712)	(738)
Effect of exchange rate changes	2	(56)	(54)	29
Balance at March 31	1,545	5,856	7,401	7,043

5 newly delivered mainline aircraft, comprising 3 Airbus A319 and 2 Boeing 777-200 were acquired on various US dollar denominated cross border finance lease arrangements, and a further 3 Boeing 777-200 were funded by UK finance lease arrangements. In addition, 4 Airbus A319 were financed by way of sterling denominated mortgage loans. 3 new Airbus A320 and 2 new Airbus A319 were acquired through off-balance sheet operating lease arrangements; and a further 3 Airbus A319 were purchased outright, and have since been financed on US dollar denominated finance leases subsequent to March 31, 2002.

In August, 2001, British Airways successfully raised £250 million by way of a 15 year unsecured bond issue, its first sterling public bond issue since 1988. In November, 2001, the airline drew down a US\$200 million tranche from one of its aircraft-secured financing facilities. Aggregate committed financing facilities remaining undrawn at March 31, 2002 totalled US\$738 million.

For the purposes of the financial statements foreign currency debt is translated into sterling at year end exchange rates. Gains and losses on translation are recognised in the profit and loss account except for changes in the sterling value of US dollar denominated debt that finances US dollar denominated fixed assets. These gains or losses are taken to reserves, together with the differences arising on the translation of the related assets. The debt translation loss taken to reserves amounted to £4 million (2001: £135 million).

## Net debt/total capital ratio

Net debt at the year end amounted to £6,294 million, including convertible bonds of £112 million, and net of cash and short-term loans and deposits totalling £1,219 million. This represented an increase of £71 million from last year, resulting from additional cash, short-term loans and deposits (£286 million), partially offset by exchange effects, and new finance lease and hire purchase arrangements.

The net debt/total capital ratio now stands at 66 per cent, a 1.5 point increase over last year, mainly due to the increased borrowing, and reduction in total capital.

## Share capital

The number of ordinary shares allotted, called up, and fully paid as at March 31, 2002, was 1,082,757 (March 31, 2001: 1,082,552).

On June 15, 2001, 61,000 ordinary shares were issued in exchange for 143,000 Convertible Capital Bonds 2005 on the basis of one ordinary share for every 2.34 Bonds held. During the year, 144,000 shares were issued on the exercise of options under Employee Share Option schemes.

## Other matters

### Management of financial risks

The Board of Directors sets the treasury policies and objectives of the group, and lays down the parameters within which the various aspects of treasury risk management are operated. The Board has approved a treasury governance statement, which outlines the group's policies governing corporate and asset financing, interest rate risk, foreign exchange risk and cash and liquidity management. The governance statement also lists the financial instruments that the group's treasury function is authorised to use in managing financial risk.

Responsibility for ensuring that treasury practices are consistent and compatible with the agreed governance statement is vested in a Finance Committee. Group Treasury implements the agreed policies on a day-to-day basis with a view to meeting the treasury objectives in a risk averse though cost effective manner. These objectives include ensuring that the group has sufficient liquidity to meet its day-to-day needs and to fund its capital investment programme and other investments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, interest rate and credit exposures; and managing the group's relationship with a large number of banks and other financial institutions world-wide.

### Financing and interest rate risk

Most of the group's debt is asset related, reflecting the capital-intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium to long-term maturity profiles of the group's loans, finance leases and hire purchase arrangements. The incidence of repayments is shown in Note 31c. The group demonstrated its continuing ability to raise new financing by establishing committed facilities of £1,088 million after the September 11th terrorist attacks.

At March 31, 2002 approximately 48 per cent of the group's borrowings (after swaps), net of cash, short-term loans and deposits, were at fixed rates of interest and 52 per cent were at floating rates. This proportion of fixed rate borrowings has increased from 40 per cent at March 31, 2001 as the group took advantage of the availability of historically low fixed rate sterling and US dollar funds.

The group's borrowings are predominantly denominated in sterling, US dollars and Japanese yen. Sterling represents the

group's natural "home" currency, whilst a substantial proportion of the group's fixed assets are priced and transacted in US dollars (Note 26). The Japanese yen liabilities arise as a result of the group's substantial Japanese cross-border hire purchase arrangements entered into during the period 1990 to 1999. Details of the currency mix of the group's gross borrowings are shown in Note 31.

During the year the company's senior unsecured debt was downgraded by the major rating agencies to one notch below investment grade. This has had very little impact on the group's interest expense as the only element of the existing debt portfolio affected was the £250 million bond repayable in 2016. The interest rate payable on this bond increased with effect from February 23, 2002 from 7.25 per cent to 8.75 per cent, the maximum coupon payable. Furthermore, the group's main source of external funding, being secured aircraft financing, is less sensitive to credit ratings than the unsecured bond market.

### Liquidity and investments

The sharp downturn in passenger volumes resulting from the September 11th terrorist attacks led the group to bolster its liquidity. Cash flow was successfully managed through this period by cut backs in discretionary expenditure, reduction in capital spend, the initiation of a programme of surplus asset sales, which is expected to yield £500 million by March 31, 2003, and the arrangement of new committed borrowing facilities as described below.

At March 31, 2002 the group had at its disposal short-term loans and deposits and cash at bank and in hand amounting to £1,219 million (2001: £936 million). In addition, the group had undrawn long-term committed aircraft financing facilities totalling approximately US\$638 million, a committed short-term unsecured revolving credit facility of US\$100 million and undrawn uncommitted overdraft and money market lines with a number of banks totalling £100 million. An additional long-term committed aircraft financing facility of US\$150 million has been arranged subsequently to March 31, 2002.

The group's holdings of cash and short-term loans and deposits, together with committed funding facilities and net cash flow, are expected to be sufficient to cover the cost of all firm aircraft deliveries due in the next two years.

Surplus funds are invested in high quality short-term liquid instruments, usually bank deposits. Credit risk is managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

### Foreign currency risk

The group does business in approximately 130 foreign currencies, and generates a surplus in most of these currencies. In recent years the US dollar has been an exception to this as capital expenditure, together with ongoing operating lease and fuel payments denominated in US dollars has created a deficit. However, the group expects to generate a surplus of US dollars in the year ending March 31, 2003 as its capital expenditure reduces and the US dollar denominated markets continue to recover.

As a result, the group can experience adverse or beneficial effects arising from exchange rate movements. For example, the group is likely to experience beneficial effects from strengthening of foreign currencies and an adverse effect from strengthening in sterling.

The group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US dollars and sterling. The group has substantial liabilities denominated in yen, which consist mainly of purchase option payments falling due under various Japanese leveraged lease arrangements maturing between 2003 and 2011. The group expects to utilise its stream of yen traffic revenues as a natural hedge against these maturing yen liabilities as they fall due.

The group's forward transactions in foreign currency are detailed in Note 41.

## Derivative financial instruments

British Airways uses derivative financial instruments (derivatives) with off-balance sheet risk selectively for treasury and fuel risk management purposes. The risk management strategy for both treasury and fuel operations is implemented within the guidelines and parameters laid down by the Board of Directors, and reflects a risk averse policy. The company's policy is not to trade in derivatives but to use these instruments to hedge against anticipated exposures.

As part of its treasury risk management activities the company has entered into a number of swap arrangements in order to hedge its direct exposure to interest rates. Swap arrangements outstanding at March 31, 2002 are summarised in Note 42.

Forward foreign exchange contracts and "collars" are used to cover near term future revenues and operating payments in a variety of currencies. Forward foreign exchange contracts outstanding at March 31, 2002 are summarised in Note 41.

Whilst the company considers the purchase of interest rate caps and the entering into of forward rate agreements as bona fide treasury exposure management activities, it would not generally contemplate the opening of new exposures by selling options, except as a component of a collar. Other treasury derivative instruments would be considered on their merits as valid and appropriate risk management tools and, under the treasury governance framework, require Board approval before adoption.

The company's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of a substantial fall in the price of fuel.

The strategy operates within limits set by the Board and agreed in detail by the Fuel Hedging Committee, which is made up of representatives from relevant internal departments.

In meeting these objectives, the fuel risk management programme allows for the judicious use of a number of derivatives traded on regulated exchanges in London (the International Petroleum Exchange) and New York (the New York Mercantile Exchange) as well as on the Over The Counter (OTC) markets, with approved counterparties and within approved limits. The instruments used include futures and forward contracts, options, collars, caps

and swaps. The hedging committee reviews the use of these instruments on a regular basis. As derivatives are used for the purposes of risk management, they do not expose the group to market risk because gains and losses on the derivatives offset losses and gains on the matching asset, liability, revenues or costs being hedged. Moreover, counterparty credit risk is generally restricted to any hedging gain from time to time and not the principal amount hedged.

## Economic and Monetary Union

British Airways successfully implemented its strategy for the withdrawal of the legacy currencies and the introduction of euro notes and coins in early 2002. At the same time, the airline is maintaining its corporate readiness for UK entry should a decision to join be taken.

## Board members *as at May 20, 2002*

### CHAIRMAN

Lord Marshall of Knightsbridge (68)

Board Member since 1983, Chief Executive 1983-1993, Executive Chairman 1993-1996; Non-executive Chairman since 1996. Chairman of the Nominations Committee. He is also Chairman of Invensys plc, and a non-executive director of HSBC Holdings plc.

### CHIEF EXECUTIVE

Roderick Eddington (52)

Executive Board member since 2000. Rod Eddington joined the airline as Chief Executive in May, 2000. He is a non-executive director of News Corporation and of John Swire & Son Pty Limited.

### CHIEF FINANCIAL OFFICER

John Rishton (44)

Executive Board member since September, 2001. Having originally joined the airline in 1994 as Senior Vice-President Finance USA, John Rishton was appointed as Chief Financial Officer in September, 2001 on the retirement of Derek Stevens.

### DIRECTOR OF CUSTOMER SERVICE AND OPERATIONS

Mike Street (54)

Executive Board member since December, 2000. Mike Street has been Director of Customer Service and Operations since 1997. He is a Trustee of the two British Airways pension schemes and sits on the Council of Buckinghamshire Chiltern University College.

### NON-EXECUTIVE DIRECTORS

Martin Broughton (55)

Non-executive director since May, 2000. Chairman of the Audit Committee and senior independent non-executive director. Safety Review and Nominations Committees. Martin Broughton is Chairman of British American Tobacco p.l.c.

Michael Davies (67)

Non-executive director since 1983. Audit, Remuneration and Nominations Committees. Michael Davies is Chairman of Simon Group PLC, National Express Group PLC and Corporate Services Group plc. Mr Davies is to retire at the annual general meeting on July 16, 2002.

Dr Ashok Ganguly (66)

Non-executive director since 1996. Audit and Safety Review Committees. A former director of Unilever PLC and a Fellow of the Royal Society of Chemistry, Ashok Ganguly is Chairman of ICI India Ltd and Technology Network (India) Private Limited, director of ICICI Knowledge Park Ltd, Mahindra & Mahindra Ltd, Wipro Corporation, Tata AIG Life Insurance Co. Ltd and the Reserve Bank of India.

Captain Michael Jeffery (57)

Non-executive director since October, 2001, having retired from British Airways in June, 2001. Chairman of the Safety Review Committee. Captain Jeffery originally joined the airline in 1966 as a co-pilot, joining flight crew management in 1976. In the early 1990's he ran the Company's major maintenance division before becoming Director of Flight Operations in 1995 until his retirement. He is a member of the West Michigan University College of Aviation Advisory Board.

Baroness O'Cathain (64)

Non-executive director since 1993. Audit, Remuneration, Nominations and Safety Review Committees. Detta O'Cathain is also a non-executive director of Thistle Hotels PLC, BNP Paribas UK Plc, South East Water plc, William Baird plc and Allders plc.

Dr Martin Read (52)

Non-executive director since May, 2000. Chairman of the Remuneration Committee. Martin Read is Managing Director and Chief Executive of Logica plc and a non-executive director of The Boots Company PLC.

Lord Renwick of Clifton (64)

Non-executive director since 1996. Safety Review Committee. Previously British Ambassador to the United States and to South Africa. He is Vice Chairman Investment Banking J P Morgan, Chairman of Fluor Ltd, director of BHP Billiton Plc, Harmony Gold, South African Breweries plc, Compagnie Financiere Richemont AG and a Trustee of The Economist.

The Hon Raymond Seitz (61)

Non-executive director since 1995. Safety Review Committee. A former US Ambassador to the Court of St James, Raymond Seitz is Vice-Chairman of Lehman Brothers International, and a non-executive director of The Chubb Corporation, Authoriszor Inc., Marconi plc, Cable and Wireless plc, Rio Tinto plc and Pacific Century Cyberworks Ltd. Mr Seitz is to retire at the annual general meeting on July 16, 2002.

COMPANY SECRETARY Alan Buchanan (43)

### PRESIDENT EMERITUS

The Rt Hon The Lord King of Wartnaby (84)

Lord King was Chairman of British Airways for 12 years from 1981, and served as President from 1993 to 1997.

### LEADERSHIP TEAM

Rod Eddington (52) Chief Executive

John Rishton (44) Chief Financial Officer

Mike Street (54) Director of Customer Service and Operations

Paul Coby (46) Chief Information Officer

Lloyd Cromwell Griffiths (57) Director of Flight Operations

Martin George (40) Director of Marketing & Commercial Development

Alan McDonald (51) Director of Engineering

Roger Maynard (59) Director of Investments and Alliances

Dale Moss (53) Director of Sales Worldwide

Mervyn Walker (43) Director for People

Robert Webb QC (53) General Counsel

# Directors' report

The directors present their Report and Accounts for the year ended March 31, 2002. The accounts are set out on pages 21 to 54.

## Principal activities

The main activities of British Airways Plc and its subsidiary undertakings are the operation of international and domestic scheduled and charter air services for the carriage of passengers, freight and mail and the provision of ancillary services.

## Results for the year

Loss for the year attributable to members of British Airways Plc amounted to £142 million, against a profit on the same basis of £67 million in the previous year (restated from the reported profit of £114 million: see note 11 on page 33). No interim dividend was paid during the year. The Board has not recommended that any final dividend be paid.

## Directors

The names and details of the directors are set out on page 11. During the year to March 31, 2002 there were a number of changes to the membership of the Board. John Rishton and Captain Michael Jeffery joined the Board on September 1, and October 1, 2001 respectively. Derek Stevens and Captain Colin Barnes retired on August 31, and September 30, 2001, respectively.

Lord Marshall of Knightsbridge, Lord Renwick of Clifton and Dr Ashok Ganguly retire and seek re-election in accordance with the company's Articles of Association at the annual general meeting to be held on July 16, 2002. Michael Davies and The Honorable Raymond Seitz retire at the annual general meeting but will not be standing for re-election. In accordance with Article 93, John Rishton and Captain Jeffery are required to seek election. At the annual general meeting, shareholders will be asked to elect Maarten van den Bergh as a non-executive director for a term of three years. Biographical notes about the existing directors seeking re-election and election are set out on page 11. They are also in the explanatory notes of the notice of annual general meeting, along with notes about Maarten van den Bergh.

Directors' membership of Board Committees appears on page 11. Details of the directors' remuneration and share interests are set out in the Remuneration Report on pages 16 to 19.

## Employee involvement

The motivation and commitment of employees are key to the success of British Airways and the company seeks to foster them in a number of ways.

Employee share ownership is encouraged. As at May 16, 2002 some 50 per cent of employees owned 2.44 per cent of the company's share capital. The company operates a savings-related share option scheme, Sharesave. The most recent operation of the scheme, in February, 2000, attracted over 36,000 applications from employees. Participants saving under the scheme will have the opportunity to acquire shares in 2003 at the pre-determined option price of £2.38.

The company obtained shareholder approval at the AGM held in July, 2000 to operate Free Share and Partnership Share Plans in line with the new tax regime for all-employee share schemes.

The company intends to launch the new Plans when the commercial environment is appropriate.

The company places considerable emphasis on internal communication. Its weekly staff newspaper, BA News, is distributed free to all staff and there is, in addition, extensive communication through face to face briefings and electronic media, including the company's intranet.

In September, 2001, British Airways ran a further company-wide employee opinion survey, the results of which showed improvement since the previous survey run in March, 2000.

The company works constructively with its recognised trade unions, of which there are five in the United Kingdom. There are well-developed structures within the company for appropriate trade union involvement, including BATUC, a monthly consultative forum for the company's senior managers and trade union representatives.

## Equal opportunities

British Airways' policy is to promote equal opportunity in all areas of employment and supports that policy through communication and training within the company. Each area of the company has an equal opportunities action plan and a senior level equal opportunities champion. The company works with Opportunity Now on gender issues, the Commission for Racial Equality on ethnicity issues and the Employers Forum on Disability.

## Community and Environment

The company's concern for the environment and the community is supported by strong policies, underpinning a code of business conduct which was updated in 2000. Last year British Airways became the first major airline to endorse the Global Sullivan Principles for Corporate Social Responsibility. The principles which include support of universal human rights, sustainable development and equal opportunity, largely reflect the terms of our revised code of business conduct. Critically, our endorsement of the Global Sullivan Principles offers a measure of public transparency and an opportunity for our company to learn from industry peers who also seek to conduct their business operations in a responsible manner.

The Corporate Community, Environment and Ethics group is charged with implementing community and environmental policy through provision of support and advice, as well as monitoring, measuring, and reporting across the areas of social and environmental performance. The first combined Annual Social and Environmental Report was published in July, 2000. The third report will be published in July, 2002.

British Airways direct charitable donations for the year to March 31, 2002 were £515,802 (2001: £782,000). The company's investment in the community is much greater when benefits in kind are included. Business in the Community reported our total contributions for the year to March 31, 2002 as £5.3 million (2001: £4.8 million).

British Airways carries out a wide range of Community and Environment programmes. The Board approved community priorities are youth development, heritage and tourism, and the environment. Over 1,000 travel awards were made during the year to groups and individuals working in these areas under the "British Airways Communities and Conservation" programme. The airline's Tourism for Tomorrow Awards, now in their 11th year, recognise tourism projects that serve as a role model for

sustainable tourism. Over the years more than 1,000 entries have been received from more than 40 countries.

More than 17,000 students, largely from local schools but also including groups such as women returning to work, have now passed through the British Airways Community Learning Centre, located in the Waterside parkland at our London business centre, which opened in October 1999. Within the centre students are taught key skills such as information technology, languages, customer service, and about the environment. The success of the centre depends on partnership with local schools and their teachers, and with the surrounding boroughs of Hillingdon, Hounslow, Slough and Windsor and a number of other key local authorities. One recognition of the work of the Learning Centre was through the Department of Trade and Industry's National Languages for Export Award.

Encouragement is given to staff to become involved in community work. A payroll giving scheme is run for our 50,000 UK staff and retired staff and £708,205 was given to a range of charities. Some of our remarkable employees have set up independent charities or established relationships that bring much needed services to deprived and distressed communities around the world. Through our customers we continue to support the Change for Good partnership with UNICEF. Our thanks goes to all our passengers for the more than £14 million which has now been generated for projects providing children with basic health education and welfare in developing countries. The programme is supported by some 1,140 champions from cabin crew. Through the company's business response scheme a number of our staff have taken voluntary unpaid leave and have given their time to projects and charities overseas. These include the Lord is my Shepherd Education Foundation in Ghana; the Quicken Trust in Uganda; the Christina Noble Foundation, providing aid for children in Vietnam; and Meninos do Morumbi, an organisation for street children in Brazil through which we have provided travel assistance to bring many children to Europe to demonstrate the value of their training. The company and its staff assisted in domestic projects such as donation of surplus equipment to St Mungo's and other charities running shelters and a number of other projects in the Borough of Hillingdon.

The environmental programme includes site audits and reviews of specific topics within key areas of noise, fuel efficiency and emissions to the atmosphere, waste materials and water, congestion in the air, and tourism and conservation. The airline has responded to concern over climate change by adopting a 30 per cent target for improvement in fuel efficiency over 20 years. We continue to be involved in the work of the International Civil Aviation Organisation (ICAO) and other relevant groups and to be part of relevant research programmes. During the year, the airline entered the UK Emissions Trading Scheme with a commitment to reduce our carbon dioxide emissions by 125,000 tonnes over five years and thus contribute to the UK's efforts to reduce man's impact on the global climate. British Airways is sponsoring work and leading a multi stakeholder group aiming to understand better the role of emissions from airport activities in air quality in West London. We are also leading the steering group of a study, largely funded by the Department of Trade and Industry, of the long-term prospects of alternative energy source for aviation.

The airline now has one of the quietest and most fuel efficient fleets in the world. British Airways supported the proposal for the new 'Chapter 4' noise standard which was presented to the Assembly of the ICAO for adoption in September last year.

The company has taken a leading part in developing a code of practice, again involving a range of stakeholders, for procedures to minimise approach noise (Continuous Descent Approach). We have taken other voluntary measures including a voluntary ban on scheduled departures at Heathrow and Gatwick after 23:30 to reduce our noise impact. Through the purchase of new quieter aircraft, management of schedules and attention to operational procedures, the overall noise impact of our operations has reduced over the last year, though, due to the lowering of the noise limits, the number of noise infringements at Heathrow and Gatwick has remained about the same.

The airline has received a number of awards for its environmental and community programmes. In March, 2001, the Association of Chartered Certified Accountants (ACCA), recognised our long-term leadership in environmental reporting with a special award for continued excellence. The ACCA shortlisted our report for the Sustainability reporting category. Our community programmes were recognised through the SuperBrand community award.

The company is supportive of the recent initiative by the UK Government to reduce injuries in the workplace. In support of this, the Social and Environmental Report to be published in July, 2002 will contain appropriate disclosure on the group's Health and Safety at Work record.

Since 1992, the airline has published an Annual Environmental Report. The first combined annual social and environment report was published in July, 2000. Copies of the 2001-02 report will be available in July. This and information on other programmes can be obtained from British Airways Plc, Waterside (HBBG), PO Box 365, Harmondsworth, UB7 0GB, UK and are available on the internet at [www.britishairways.com/responsibility](http://www.britishairways.com/responsibility).

## Political donations

No donations were made to political parties during the year (2001: nil). At the annual general meeting in 2001, shareholders passed a resolution to approve donations to EU political organisations and EU political expenditure (as such terms are defined in section 347A of the Companies Act, 1985 (as amended)) not exceeding £250,000 in the period from July 17, 2001 to the annual general meeting in 2002. This was done in response to the provisions of the Political Parties, Elections and Referendums Act 2000 which obliges companies to obtain prior shareholder approval before this type of cost can be incurred. The Board has repeatedly stressed that it does not make donations to political parties in the ordinary meaning of those words and that it has no intention of doing so. The scope of the provisions of the 2000 Act are unclear and some of the activities which the company carries on, such as allowing additional paid leave to employees to perform civic duties (for example, to allow local councillors to attend council meetings) may now require prior shareholder approval. After taking legal advice, the company set up a procedure to monitor certain types of expenditure which could reasonably be expected to fall within the intention of the legislation (arguably a much narrower category than falls within the letter.) The amount expended in the period from the annual general meeting in 2001 and March 31, 2002 was £10,283. In accordance with the provisions of the legislation, in January, 2002 the company reported to the Electoral Commission that it had given additional paid leave to an employee who stood as a parliamentary candidate in the 2001 general election valued at £2,500.

## Corporate governance

The company has complied throughout the year with the code of best practice set out in Section 1 of the Combined Code appended to the Listing Rules of the Financial Services Authority. The Board of British Airways Plc meets ten times a year and additionally when necessary to consider all matters relating to the overall control, business performance and strategy of the company and for these purposes the Board has drawn up a schedule of matters reserved for Board decision. In recognition of the international nature of the airline business, the Board holds at least three of its meetings each year at important destinations on British Airways' route network.

The Board is led by the Chairman and the executive management of the company is led by Rod Eddington, the Chief Executive. Throughout the financial year under review, the Board had twelve members: three of whom were executive directors and nine were non-executive directors. Of the nine non-executive directors, the Chairman, Captain Colin Barnes and his replacement, Captain Michael Jeffery, were formerly executives of the company. The other seven are fully independent non-executive directors drawn from a diversity of business and diplomatic backgrounds, bringing a broad range of views and experiences to Board deliberations. Martin Broughton is the senior independent non-executive director on the Board. As from the annual general meeting in 2002, the Board will consist of eleven members, three executive and eight non-executive directors.

All directors receive a regular supply of information about the company so that they are equipped to play as full a part as possible in Board meetings. All Board members have access to the Company Secretary for any further information they require. Non-executive directors are encouraged to visit the company's operations and to speak to customers and employees whenever they fly. All directors are required to submit themselves for re-election every three years. Independent professional advice would be available to directors in appropriate circumstances, at the company's expense. New directors are appointed to the Board on the recommendation of the Nominations Committee whose terms of reference are described below.

The Board has four standing Board Committees which meet regularly under terms of reference set by the Board.

The Audit Committee meets quarterly under the chairmanship of the senior independent non-executive director, Martin Broughton. As at May 20, 2002, its other members were Michael Davies, Ashok Ganguly and Baroness O'Cathain all of whom are independent non-executive directors. The external and internal auditors, the General Counsel and the Company Secretary attend all meetings of the Committee and have rights of access to the Committee. Executives attend as required. The Committee reviews the company's financial statements to ensure that its accounting policies are the most appropriate to the company's circumstances and that its financial reporting presents a balanced and understandable assessment of the company's position and prospects. It also keeps under review the company's system of internal control, including compliance with the company's code of business conduct and the scope and results of the work of internal audit and of the external audit, together with the independence and objectivity of the auditors.

The Safety Review Committee meets at least five times per year. Until his retirement in July, 2001, the Committee was under the chairmanship of Captain Colin Barnes, a former Chief Pilot of the airline. It is now chaired by Captain Michael Jeffery, a former

Director of Flight Operations, and its other members are Martin Broughton, Ashok Ganguly, Baroness O'Cathain, Lord Renwick and the Hon. Raymond Seitz. The Committee considers matters relating to the operational safety and security of the airline and subsidiary airlines as well as health and safety issues.

The Nominations Committee meets once a year, and additionally if required, to consider the balance of the Board's membership, to identify any additional skills or experience which might benefit the Board's performance and to interview candidates and recommend appointments to the Board. The Committee also reviews the performance of any director seeking re-election at the forthcoming annual general meeting. Its Chairman is Lord Marshall and, as at May 20, 2002, its other members were Martin Broughton, Michael Davies and Baroness O'Cathain. No member of the Committee participates in any discussion of his or her own performance.

The Remuneration Committee of the Board meets at least once a year to determine the company's policy on executive directors' remuneration and remuneration for senior executives below Board level, to review that remuneration, to consider and decide grants under the company's long term incentive and share option plans. The Committee is chaired by Martin Read, an independent non-executive director and its other members, as at May 20, 2002, were Michael Davies and Baroness O'Cathain who are also independent non-executive directors. No director is involved in deciding his or her own remuneration.

The company maintains regular contact with its larger institutional shareholders through its investor relations team and through meetings with the Chief Executive and the Chief Financial Officer. Private shareholders receive the British Airways Investor magazine twice annually and are encouraged to attend the annual general meeting and to express their views by completing and returning a freepost Issues of Concern card, the main themes of which are reported to the Board and responded to in the Chairman's address at the annual general meeting.

In order to protect the operating rights of the company, the number of ordinary shares held by the non-UK nationals is monitored. At March 31, 2002, 47 per cent of the ordinary shares of the company were held by non-UK nationals (2001: 43 per cent). Although there are no large interests of single or associated non-UK nationals, the directors cannot rule out the possibility that they may be required to exercise their powers to restrict non-UK share ownership in order to protect the company's operating rights. The annual general meeting in 2002 is being asked to approve further measures designed to underscore the airline's UK nationality.

## Internal control

The directors are responsible for the company's system of internal control, including internal financial control, which is designed to provide reasonable, but not absolute, assurance regarding:

- (a) the safeguarding of assets against unauthorised use or disposition, and
- (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

There is an on-going process to identify, assess and manage risk. This process has been in place throughout the year to which these statements apply and up to the date of their approval.

As part of its continuing drive to embed internal control into its business processes, the company established a Risk and

Opportunity Management Group with specific accountability for reviewing the system of risk management and for reporting key risks and their associated mitigating factors to the Board. These include economic, political and regulatory, technical and operational and financial and business risks.

For the accounting period ending on March 31, 2002, the key procedures that the directors established to provide effective internal controls were as follows:

The company's Code of Business Conduct, which was re-issued in 2000, conveys ethical values and establishes the norms of business behaviour throughout the company. This is one of a number of Standing Instructions to employees of the Group designed to enhance internal control. These, along with Finance Standing Instructions, are constantly updated and made available to staff through the company's intranet.

A clear organisational structure exists detailing lines of authority and control responsibilities. The professionalism and competence of staff is maintained both through rigorous recruitment policies and a performance appraisal system which establishes targets, reinforces accountability and control consciousness and identifies appropriate training requirements. Action plans are consequently prepared and implemented to ensure that staff develop and maintain the required skills to fulfil their responsibilities, and that the company can meet its future management requirements.

Information systems are developed to support the company's long-term objectives and are managed by a professionally staffed Information Management department. Appropriate policies and procedures are in place covering all significant areas of the business. These detail lower level controls including authorisation and approval processes.

The business agenda is normally determined by the business plan which represents the operational and financial evaluation of the corporate strategy, setting out the agreed targets for financial return and service standards, identifying and prioritising improvement opportunities to deliver those targets and the agreed capital and manpower requirements. The business planning process confirms that the targeted results can be achieved, satisfies departments that their plans are robust and establishes performance indicators against which departments can be evaluated. The business plan is approved by the Board on an annual basis.

A combination of factors, including the severe global economic downturn, the foot and mouth epidemic in the United Kingdom and the terrorist atrocities on September 11th, 2001, arose during the financial year which interrupted the normal business planning cycle. In response to these events, a major strategy review known as 'Future Size and Shape' was launched. The recommendations of this review, which were announced in February, 2002, form the basis of the current two year business plan and are currently being implemented.

A comprehensive management accounting system is in place providing financial and operational performance measure indicators to executive management. Detailed management accounts are prepared to cover each major area of the business. Variances from the business plan are analysed, explained and acted on in a timely manner. As well as regular Board discussions, monthly meetings are held by the Leadership Team to discuss performance with specific projects being discussed as and when required. During the year the company

established a capital investment committee and a manpower control group.

Business controls are reviewed on an ongoing basis by the Internal Control department which operates internationally and to a programme based on risk assessment. The department is managed by professionally qualified personnel with experience gained from both inside and outside the industry. To achieve a step change in internal control in the group, the department has been expanded to provide, for the first time, dedicated resources for audits of major ongoing projects, third party audits (suppliers, agents, partners), IT audits and risk control as well as continuing a full programme of internal audits. Other initiatives include the introduction of audit ratings, the adoption of a standard 3 year audit cycle, a self-audit programme for line managers, a clear, simple restatement of the rules governing the financial management and control of the group (Finance Standing Instructions), audits every six months of all major capital investment programmes and the introduction of internal control targets for line managers. The Audit Committee, considers significant control matters raised by management and both the internal and external auditors and reports its findings to the Board.

The directors have reviewed the effectiveness of the company's internal control system considering the processes set out above and make this statement pursuant to the guidance for directors issued in September 1999.

## Going concern

After making enquiries, the directors consider that the company has adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

## Payment policy

British Airways is a signatory to the Confederation of British Industry (CBI) code of practice on supplier payment and is committed to the payment of its suppliers to agreed terms. Further information in respect of this code can be obtained from the CBI at Centre Point, 103 New Oxford Street, London WC1A 1DU. The number of days' purchases in creditors as at March 31, 2002 in respect of the company is calculated as 52 days (2001: 45 days). (Calculation basis as defined by the Companies Act 1985).

## Post balance sheet events

On May 8, 2002, the company entered into a binding agreement with easyJet, which grants easyJet the option to buy 100 per cent of Deutsche BA, the group's German airline subsidiary, by March 31, 2003. The amount payable by easyJet is potentially between £18 million (Euro 30 million) and £28 million (Euro 46 million) dependent on when the option is exercised.

On March 7, 2002, the company reached a conditional agreement to sell a 70 per cent shareholding in its subsidiary undertaking, World Network Services, the data management company based in India plus certain UK based assets, to Warburg Pincus, the private equity investor, for sale proceeds of £10 million. The transaction became unconditional on May 20, 2002.

By order of the Board

Alan Buchanan  
Company Secretary  
May 20, 2002



# Remuneration report

## Policy

The company's remuneration policy is to provide compensation packages at market rate which reward successful performance and attract, retain and motivate managers. The remuneration packages offered by the company are comparable with other international businesses of similar size and nature to British Airways.

The Remuneration Committee determines the remuneration packages for the Chairman, Executive Directors and the Chief Executive's direct reports.

## Remuneration package for executive directors

The remuneration package, which is determined by the Remuneration Committee, consists of a basic salary, pension, an annual bonus, participation in a long term incentive plan and share option plan. The company also provides private health care, a car and fuel.

## Basic salary and benefits

The basic salary reflects the level of responsibility of the executive director, his or her market value and individual performance. In reviewing basic salary, independent external advice is taken on salaries for comparable jobs in companies similar to British Airways.

## Annual bonus

Executive directors participate in an annual bonus scheme which is designed to reward achievement of financial targets agreed by the Remuneration Committee and linked to the business plan approved by the Board. Maximum bonus is capped at 50 per cent of salary, payable only if stretching targets are achieved.

## Long term incentive plan

The British Airways Long Term Incentive Plan 1996 was first approved by the shareholders at the annual general meeting in July 1996 but more stringent performance criteria were adopted at the annual general meeting on July 13, 1999.

The Plan permits the Remuneration Committee to make awards of options over shares to the most senior group of executives conditional upon the company's achievement of a stretching performance condition, which requires the company's ranking by total shareholder return (TSR) to be placed at the median percentile or above relative to other companies in the FTSE-100 index before any options are granted and which produces the maximum option grant only if the company attains the 90th percentile or above. In relation to the awards made in 1999, 2000 and 2001, achievement against the performance condition is tested for a one third tranche of each award on the third, fourth and fifth anniversary of the start of the financial year in which the award was made. In relation to awards made in the 2002/2003 financial year, achievement against the performance condition will be tested in relation to the whole award at the start of the 2005/2006 financial year.

All awards are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of the option.

Rod Eddington, Mike Street and John Rishton received conditional awards under the Plan during the year under review, details of which may be found on page 19.

## British Airways Share Option Plan 1999

The Plan enables the Remuneration Committee to grant options to acquire ordinary shares in the company or British Airways'

American Depositary Shares (ADS) at an option price in sterling or (in the case of ADSs) in US dollars which is not less than the market value of the shares on the date of grant and, where shares are to be subscribed, their nominal value (if greater). An individual's participation is limited so that the option prices payable for options granted in any one year will not exceed basic salary. It is not, however, subject to any limit on the value of options outstanding, in order to discourage early exercise of options and sale of shares. Exercise of options is subject to a performance condition, the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the company. The performance condition currently in use requires the Remuneration Committee to be satisfied that there has been an increase in the earnings per share of the company which is at least 4 per cent per annum more than the increase in the retail prices index during any period of three consecutive financial years within the life of the grant. In relation to options granted in 2000, 2001 and 2002, the Remuneration Committee imposed a threshold of 20.8 pence as the minimum base year earnings per share before any such increase could qualify towards meeting the performance condition.

Rod Eddington, Mike Street and John Rishton received awards under the Plan during the year under review, details of which may be found on page 18.

## Service contracts

Each of the three executive directors has a rolling contract with a one year notice period. In the event of new external appointments, the length of service contract would be determined by the Committee in the light of the then prevailing market practice, and the Committee acknowledges that the trend is towards contracts where the notice period reduces to one year after an initial period in accordance with paragraph B.1.8 of the Combined Code.

## Non-executive directorships

The Board encourages executive directors to broaden their experience outside the company. Accordingly they are permitted to take up a limited number of non-executive appointments from which they may retain any fee.

## Pension schemes

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme (NAPS) and an Unfunded Unapproved Retirement Scheme which, under the terms of their service contracts, will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service. Mike Street is a member of NAPS. Annual bonuses are not part of the executive directors' pensionable pay and nor will any annual bonus be included for pensionable purposes in relation to any future appointments of executive directors. Provision for payment of a widow's pension on death and life insurance providing payment of a lump sum for death in service is also made.

## Non-executive directors' fees

The Chairman's fee is determined by the Remuneration Committee. Fees for the non-executive directors (other than the Chairman) are determined by the executive directors on the recommendation of the Chairman and were reviewed in April, 2001 having remained unchanged for the previous three years. They will be reviewed again in April, 2003. Neither the Chairman nor the non-executive directors participate in the long term incentive plan nor the share option plan. Their fees are not pensionable. Lord Marshall, Captain Barnes and Captain Jeffery, being former executives of the company, are in receipt of pensions, in the case of Lord Marshall, under the New Airways Pension Scheme and, in the case of Captain Barnes and Captain Jeffery, under the Airways Pension Scheme.

## Directors' remuneration and share interests

The remuneration of the executive directors was:

	<i>Basic Salary</i>		<i>Bonus</i>		<i>Taxable benefits</i>		<i>Total</i>	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Rod Eddington	486	458	0	185	11	108	497	751
Mike Street	282	89*	0	33*	15	5*	297	127*
John Rishton*	114		0		7		121	
Derek Stevens**	203	292	0	108	4	10	207	410

\* Figures shown from date of appointment and are pro-rata of annual amount.

\*\* Derek Stevens retired from the Board on August 31, 2001. Included in his salary is a payment of £76,250 in consideration of his early retirement.

Taxable benefits include a company car or cash equivalent, fuel and private health insurance.

Following the events of September 11th, the executive directors agreed to waive 15% of their salaries in the period October 1, 2001 to March 31, 2002, which is reflected in the figures above.

The pensions of the executive directors were:

	<i>Age as at March 31, 2002</i>	<i>Annual pension earned during 2001-02 £</i>	<i>Total deferred annual Pension £</i>	<i>Transfer value of increase in accrued benefit £</i>
Rod Eddington	52	17,931	33,162	as at March 31, 2002 193,800
Mike Street	54	16,367	195,953	as at March 31, 2002 168,000
John Rishton	44	11,664	36,255	as at March 31, 2002 90,700
Derek Stevens**	63	8,113	243,094	as at August 31, 2001 97,800

\*\* as at date of retirement

Rod Eddington and John Rishton are members of both the New Airways Pension Scheme and an Unfunded Unapproved Retirement Scheme which, under the terms of their service contracts will provide a total retirement benefit equivalent to 1/30th and 1/56th respectively of basic salary for each year of service as directors.

The fees paid to non-executive directors were:

<i>£'000</i>	2002*	2001
Lord Marshall	188	250
Michael Davies	25	27
Dr Ashok Ganguly	28	39
Baroness O'Cathain	30	31
Lord Renwick	24	28
The Hon Raymond Seitz	25	27
Dr Martin Read	22	20
Captain Michael Jeffery	14	
Captain Colin Barnes	24	43
Martin Broughton	**	**

\* or from date of appointment

\*\* Fees of £27,226 (2001: £22,910) were paid to Martin Broughton's employer in respect of his services as a non-executive director of British Airways Plc.

Following the events of September 11th, all of the non-executive directors, including the Chairman, agreed to waive 50% of their basic fees for the period from October 1, 2001 to March 31, 2002, which is reflected in the figures above.

Lord Marshall's basic fee as non-executive Chairman was £250,000 per annum in addition to which he enjoyed taxable benefits of £16,406.

The Chairman of the Safety Review Committee receives £15,000 per annum for his chairmanship in addition to the fee paid to the other non-executive directors. This comprised for the year under review a basic £27,500 per annum plus £600 for each Board Committee separately attended. Captain Barnes and Captain Jeffery enjoyed taxable benefits of £6,268 and £6,171 respectively.

## Directors' share interests at March 31, 2002

Number	British Airways Plc				British Airways Capital Limited	
	Ordinary shares subject to no restrictions		Ordinary shares subject to restrictions		Convertible Capital Bonds	
	March 31, 2002	April 1, 2001*	March 31, 2002	April 1, 2001*	March 31, 2002	April 1, 2001*
Lord Marshall	69,225	69,225			11,304	11,304
Rod Eddington						
Mike Street	6,678	6,206		472		
John Rishton	2,039	2,039				
Michael Davies	5,224	5,224			2,221	2,221
Dr Ashok Ganguly	104	104				
Baroness O'Cathain	6,000	6,000				
Lord Renwick	32,014	6,514				
The Hon Raymond Seitz	1,506	1,506				
Martin Broughton	9,090	8,372				
Dr Martin Read	8,000	7,539				
Capt Michael Jeffery	2,624	2,624				
	142,504	115,353		472	13,525	13,525

\*or as at date of appointment.

No director has any beneficial interest in any subsidiary undertaking of the company other than those shown above in the 9.75 per cent Convertible Capital Bonds 2005 of British Airways Capital Limited.

## Directors' share options at March 31, 2002

The following directors held options to purchase ordinary shares of British Airways Plc granted under the British Airways Executive Share Option Scheme 1987 and the British Airways Share Option Plan 1999:

	Date of grant	Number of options	Option price	Options exercised	Exercisable for seven years from
Lord Marshall	June 9, 1993	81,911	293p		June 9, 1996
	July 1, 1994	12,903	372p		July 1, 1997
	Aug 11, 1994	95,465	419p		Aug 11, 1997
Balance at April 1, 2001 and March 31, 2002		190,279			
Rod Eddington	May 26, 2000	138,888	360p		May 26, 2003
Balance at April 1, 2001		138,888			
	June 26, 2001	163,551	321p		June 26, 2004
Balance at March 31, 2002		302,439			
Mike Street	Aug 26, 1999	79,517	394p		Aug 26, 2002
	June 28, 2000	75,605	380p		June 28, 2003
Balance at April 1, 2001		155,122			
	June 26, 2001	95,015	321p		June 26, 2004
Balance at March 31, 2002		250,137			
John Rishton	Aug 26, 1999	21,852	394p		Aug 26, 2002
	June 28, 2000	31,578	380p		June 28, 2003
Balance at April 1, 2001		53,430			
	June 26, 2001	70,093	321p		June 26, 2004
Balance at March 31, 2002		123,523			

In addition, John Rishton and Mike Street each hold 814 options at 238p under the 2000 operation of the British Airways Savings Related Share Option Scheme 1996, exercisable for a six month period from June 1, 2003.

## Directors' Conditional Share Options at March 31, 2002

The following directors held conditional awards of options over ordinary shares of British Airways Plc granted under the British Airways Long Term Incentive Plan.

	<i>Date of grant</i>	<i>Number of Options</i>
Rod Eddington	June 5, 2000	103,022
	June 8, 2001	105,000
Mike Street	June 13, 1997	6,115
	June 12, 1998	20,842
	July 2, 1999	46,698
	June 5, 2000	59,196
	June 8, 2001	61,000
John Rishton	June 13, 1997	1,541
	June 12, 1998	3,547
	June 8, 2001	45,000
Captain Michael Jeffery	June 13, 1997	4,718
	June 12, 1998	10,762
	July 2, 1999	26,374
	June 5, 2000	33,420

On April 1, 2002 a third of each of the conditional awards made on June 13, 1997, June 12, 1998 and July 2, 1999 lapsed as the performance condition was not met in the respective financial years 1998 to 2002.

In relation to awards made in 1997 and 1998, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by total shareholder return (TSR) from the year of the grant through to the end of the year in question, places the company at or above the 75th percentile when compared with the TSR for each of the companies in the FTSE-100 index. If the company's TSR for the period to that financial year end is at or below the 40th percentile, no options will be granted. If the company's TSR for that period is between the 41st and 74th percentiles, the number of options will be determined pro-rata on a straight line basis.

In relation to awards made from 1999 onwards, one third of each individual award may vest at the end of the third, fourth and fifth financial years from the year of the grant if the performance of the company, measured by total shareholder return (TSR) from the year of the grant through to the end of the year in question, places the company at or above the median percentile when compared with the TSR for each of the companies in the FTSE-100 index. If the company's TSR for the period to that financial year end is at or below the 50th percentile, no options will be granted. If the company's TSR for that period is between the 50th and 90th percentiles, the number of options will be determined pro-rata on a straight line basis.

No payment is due upon exercise of options. Options are exercisable for seven years from vesting.

All grants of options are subject to the Remuneration Committee being satisfied that the company's overall financial performance justifies the grant of an option.

<i>Closing prices of the ordinary shares</i>	2002	2001*
At March 28	244p	315p
Highest in the year	387p	463p
Lowest in the year	139p	265p

\*closing price of the ordinary shares as at March 31, 2001.

On behalf of the Board  
 Dr Martin Read  
 Non-executive Director and Chairman of the Remuneration Committee  
 May 20, 2002

## Statement of directors' responsibilities in relation to the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Independent auditors' report to the members of British Airways Plc

We have audited the group's financial statements for the year ended March 31, 2002 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, Statement of Total Recognised Gains and Losses, Reconciliation of Consolidated Shareholders' Funds and the related notes 1 to 47. These financial statements have been prepared on the basis of the accounting policies set out therein.

### Respective responsibilities of directors and auditors

As described in the Statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the corporate governance statement within the directors' report reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of either the company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at March 31, 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP  
Registered Auditor  
London

May 20, 2002

# Group profit and loss account

For the year ended March 31, 2002

£ million	Note	Group	
		2002	2001 <i>Restated</i>
Turnover	2	8,340	9,278
Cost of sales	4	(8,291)	(8,757)
Gross profit		49	521
Administrative expenses	4	(159)	(141)
<i>Operating (loss)/profit before exceptional operating charge</i>		(30)	380
<i>Exceptional operating charge</i>	4	(80)	
Operating (loss)/profit		(110)	380
Share of operating profit in associates	7	22	64
Total operating (loss)/profit including associates		(88)	444
Other income and charges	8	21	1
Profit/(loss) on sale of fixed assets and investments	9	145	(69)
Net interest payable	10	(278)	(226)
(Loss)/profit before tax		(200)	150
Tax	11a	71	(69)
(Loss)/profit after tax		(129)	81
Equity minority interest		(1)	(2)
Non equity minority interest	39	(12)	(12)
(Loss)/profit for the year		(142)	67
Dividends paid and proposed	12		(193)
Retained loss for the year	38	(142)	(126)
Earnings per share			
Basic (loss)/earnings per share	13	(13.2)p	6.2p
Diluted (loss)/earnings per share		(13.2)p	6.2p
Dividends per share	12		17.9p

# Balance sheets

At March 31, 2002

£ million	Note	Group		Company	
		2002	2001 <i>Restated</i>	2002	2001 <i>Restated</i>
<b>Fixed assets</b>					
Intangible assets	14	105	60		
Tangible assets	15				
<i>Fleet</i>		8,672	8,761	8,387	8,713
<i>Property</i>		1,335	1,418	1,256	1,342
<i>Equipment</i>		502	483	398	370
		10,509	10,662	10,041	10,425
<b>Investments</b>					
<i>Subsidiary undertakings and quasi-subsidiary</i>	18			1,266	1,393
<i>Associated undertakings</i>		425	381	24	14
<i>Trade investments</i>		39	20	38	19
<i>Investment in own shares</i>		25	25	25	25
		489	426	1,353	1,451
		11,103	11,148	11,394	11,876
<b>Current assets</b>					
Stocks	25	109	170	91	151
Debtors	27	1,231	1,444	1,144	1,243
Short-term loans and deposits	28c	1,155	865	1,112	808
Cash at bank and in hand		64	71	4	8
		2,559	2,550	2,351	2,210
Creditors: amounts falling due within one year	29	(3,201)	(3,308)	(3,710)	(3,957)
<b>Net current liabilities</b>		(642)	(758)	(1,359)	(1,747)
<b>Total assets less current liabilities</b>		10,461	10,390	10,035	10,129
<b>Creditors: amounts falling due after more than one year</b>					
Borrowings and other creditors	30	(6,985)	(6,788)	(6,965)	(6,963)
Convertible Capital Bonds 2005	33	(112)	(113)		
		(7,097)	(6,901)	(6,965)	(6,963)
Provision for deferred tax	34	(1,031)	(1,094)	(985)	(1,060)
Provisions for liabilities and charges	35	(126)	(70)	(126)	(69)
		2,207	2,325	1,959	2,037
<b>Capital and reserves</b>					
Called up share capital	36	271	271	271	271
Reserves	38				
<i>Share premium account</i>		788	788	788	788
<i>Revaluation reserve</i>		270	290	270	290
<i>Profit and loss account</i>		687	772	630	688
		1,745	1,850	1,688	1,766
<b>Total equity shareholders' funds</b>		2,016	2,121	1,959	2,037
Minority interest		9	18		
Non equity minority interest	39	182	186		
		2,207	2,325	1,959	2,037

Rod Eddington  
John Rishton  
May 20, 2002

*Chief Executive Officer*  
*Chief Financial Officer*

# Group cash flow statement

For the year ended March 31, 2002

£ million	Note	Group	
		2002	2001
Cash inflow from operating activities	5a	866	1,251
Dividends received from associates		16	33
Government compensation received	8	22	
Returns on investments and servicing of finance			
Interest received		62	83
Interest paid on bank and other loans		(103)	(88)
Interest paid on finance leases and hire purchase arrangements		(276)	(326)
Dividends received from trade investments		2	1
Non equity minority interest		(12)	(12)
Net cash outflow from returns on investments and servicing of finance		(327)	(342)
Tax			
UK Corporation tax			18
Overseas tax		(1)	(3)
Net cash (outflow)/inflow from tax		(1)	15
Capital expenditure and financial investment			
Tangible fixed assets purchased for cash	15e	(757)	(1,115)
Refund of progress payments		408	373
Sale of tangible fixed assets and investments		465	298
Purchase of trade investments		(22)	(13)
Net cash inflow/(outflow) for capital expenditure and financial investment		94	(457)
Acquisitions and disposals			
Sale of interests in subsidiary undertakings		4	41
Purchase of subsidiary undertakings	20	(77)	
Refund of investment in Iberia		97	
Purchase of interests in other associated undertakings		(43)	(15)
Net cash (outflow)/inflow for acquisitions and disposals		(19)	26
Equity dividends paid		(137)	(194)
Net cash inflow before management of liquid resources and financing		514	332
Management of liquid resources		(301)	159
Financing			
Changes in borrowings			
<i>Bank and other loans raised</i>		495	214
<i>Bank and other loans repaid</i>		(57)	(228)
<i>Capital elements of finance leases and hire purchase arrangements repaid</i>		(655)	(510)
		(217)	(524)
Changes in share capital			
<i>Issue of ordinary share capital and share premium received</i>			3
Decrease in cash	28	(4)	(30)



# Statement of total recognised gains and losses

For the year ended March 31, 2002

£ million	Note	Group	
		2002	2001 <i>Restated</i>
(Loss)/profit for the year		(142)	67
Other recognised gains and losses relating to the year:			
<i>Exchange and other movements</i>	38a	17	(30)
Total gains and losses relating to the year		(125)	37
Prior period adjustment	38a	(1,094)	
Total gains and losses recognised since last annual report		(1,219)	37

Profit for the year relating to associated undertakings is shown in Note 24.

The prior year adjustment relates to the adoption of FRS 19 'Deferred Tax'.

# Reconciliation of movements in shareholders' funds

For the year ended March 31, 2002

£ million	Note	Group	
		2002	2001 <i>Restated</i>
(Loss)/profit for the year		(142)	67
Dividends	12		(193)
Retained loss for the year		(142)	(126)
Other recognised gains and losses relating to the year	38a	17	(30)
Issue of ordinary share capital, on the conversion of Convertible Capital Bonds, and on the exercise of options under Employee Share Option Schemes			
<i>Share capital</i>			1
<i>Share premium</i>			3
			4
Goodwill transferred to the profit and loss account in respect of disposals	38a	20	173
Net (reduction)/increase to shareholders' funds		(105)	21
Equity shareholders' funds at April 1 as previously reported		3,215	
Prior period adjustment	38a	(1,094)	
Equity shareholders' funds at April 1 restated		2,121	2,100
Equity shareholders' funds at March 31		2,016	2,121

The difference between reported and historical cost profits and losses is not material.

# Summary statements in euro

Included for information purposes only

## Group profit and loss account

For the year ended March 31, 2002

Euro million	2002	2001 <i>Restated</i>
Turnover	13,618	15,013
Operating expenditure	(13,667)	(14,398)
Exceptional operating charge	(131)	
Operating (loss)/profit	(180)	615
Share of operating profit in associates	36	104
Total operating (loss)/profit including associates	(144)	719
Other income and charges	34	2
Profit/(loss) on sale of fixed assets and investments	237	(112)
Net interest payable	(454)	(366)
(Loss)/profit before tax	(327)	243
Tax	116	(112)
(Loss)/profit after tax	(211)	131
Equity minority interest	(2)	(3)
Non equity minority interest	(19)	(20)
(Loss)/profit for the year	(232)	108
Dividends paid and proposed		(312)
Retained loss for the year	(232)	(204)

## Group statement of total recognised gains and losses

For the year ended March 31, 2002

Euro million	2002	2001 <i>Restated</i>
(Loss)/profit for the year	(232)	108
Other recognised gains and losses relating to the year:		
<i>Exchange and other movements</i>	28	(48)
Prior period adjustment	(1,783)	
Total gains and losses recognised since last annual report	(1,987)	60

## Group balance sheet

At March 31, 2002

Euro million	2002	2001 <i>Restated</i>
Fixed assets		
Intangible assets	171	97
Tangible assets	17,160	17,252
Investments	799	689
	18,130	18,038
Current assets	4,179	4,126
Creditors: amounts falling due within one year	(5,227)	(5,353)
Net current liabilities	(1,048)	(1,227)
Total assets less current liabilities	17,082	16,811
Creditors: amounts falling due after more than one year	(11,589)	(11,166)
Provision for deferred tax	(1,683)	(1,770)
Provisions for liabilities and charges	(206)	(113)
	3,604	3,762
Capital and reserves		
Called up share capital	443	439
Reserves	2,849	2,993
Minority interest	15	29
Non equity minority interest	297	301
	3,604	3,762

Translation rate £1 = 1.63 euro £1 = 1.62 euro

Euro amounts have been included for information only and have been translated from sterling at the rates of exchange applying on March 31, 2002 and 2001.

# Notes to the accounts

## 1 Accounting policies

### Accounting convention

The accounts have been prepared under the historical cost convention modified by the inclusion of certain assets at valuation, as stated below, and in accordance with all applicable United Kingdom accounting standards and the Companies Act 1985. The principal accounting policies have been applied consistently with the exception of the changes arising on the adoption of new Accounting Standards in the year and the reclassification of expendable stocks, as explained below.

### Basis of consolidation

The group accounts include the accounts of the company and its subsidiary undertakings, each made up to March 31, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with British Airways' accounting policies. The group's share of the profits less losses of associated undertakings is included in the group profit and loss account and its share of the post-acquisition results of these companies is included in interests in associated undertakings in the group balance sheet. Certain associated undertakings make up their annual audited accounts to dates other than March 31. In the cases of Qantas and Iberia, published results up to the year ended December 31 are included. For Qantas the results are unaudited. In other cases, results disclosed by subsequent unaudited management accounts are included.

The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. Where an entity, though not fulfilling the legal definition of a subsidiary or subsidiary undertaking, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity a subsidiary or subsidiary undertaking, that entity is classified as a quasi-subsidiary. In determining whether the group has the ability to enjoy the benefits arising from such entities' net assets, regard is given as to which party is exposed to the risks inherent in the benefits and which party, in practice, carries substantially all the risks and rewards of ownership. The group currently accounts for its investment in The London Eye Company Limited as a quasi-subsidiary.

In accordance with section 230 of the Companies Act 1985, a separate profit and loss account dealing with the results of the company only is not presented.

### Changes in accounting policy and presentation

During the year the group implemented the following new Accounting Standards:

FRS 17 'Retirement Benefits' – the group is following the transitional arrangements under which additional disclosure on retirement benefits has been provided in Note 40 to the accounts for the year ended March 31, 2002. Full implementation of the standard is required by the year ending March 31, 2004.

FRS 18 'Accounting Policies' has been complied with in the preparation of these accounts but has not led to any changes in accounting policy.

FRS 19 'Deferred Tax' has been adopted in the preparation of these accounts and the comparatives have been restated as a result. The accounting policy has been changed in order to comply with FRS 19. This has resulted in a prior year adjustment of £1,094 million for deferred tax (see Note 34), and an increase in the tax charge reported in the year ended March 31, 2001 of £47 million.

Expendable stocks have been reclassified from fixed assets to stocks and the comparative figures restated by £104 million to reflect this change in classification. In addition, certain prior year figures have been restated to conform with the 2002 presentation.

### Turnover

Passenger ticket and cargo waybill sales, net of discounts, are recorded as current liabilities in the 'sales in advance of carriage' account until recognised as revenue when the transportation service is provided. Commission costs are recognised at the same time as the revenue to which they relate and are charged to cost of sales. Unused tickets are recognised as revenue on a systematic basis.

Other revenue is recognised at the time the service is provided.

### Segmental reporting

#### a Business segments

The directors regard all material group activities as relating to the airline business.

#### b Geographical segments

i) *Turnover by destination:* The analysis of turnover by destination is based on the following criteria:

*Scheduled and non-scheduled services:* Turnover from domestic services within the United Kingdom is attributed to the United Kingdom.

Turnover from inbound and outbound services between the United Kingdom and overseas points is attributed to the geographical area in which the relevant overseas point lies.

*Other revenue:* Revenue from the sale of package holidays is attributed to the geographical area in which the holiday is taken, while revenue from aircraft maintenance and other miscellaneous services is attributed on the basis of where the customer resides.

ii) *Turnover by origin:* The analysis of turnover by origin is derived by allocating revenue to the area in which the sale was made. Operating profit resulting from turnover generated in each geographical area according to origin of sale is not disclosed as it is neither practical nor meaningful to allocate the group's operating expenditure on this basis.

## 1 Accounting policies continued

- iii) *Geographical analysis of net assets:* The major revenue-earning asset of the group is the aircraft fleet, the majority of which are registered in the United Kingdom. Since the group's aircraft fleets are employed flexibly across its worldwide route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.
- iv) The geographical analysis of turnover and operating profit for associates has not been disclosed as it would be prejudicial to the businesses of the associates.

### Goodwill

Prior to March 31, 1998, goodwill was set off against reserves on the acquisition of a business, including an equity interest in an associated undertaking. Goodwill will be released to the profit and loss account on disposal of the business to which it relates. From April 1, 1998, where the cost of acquisition exceeds the values attributed to such net assets, the resulting goodwill is capitalised and amortised over a period not exceeding 20 years.

### Tangible fixed assets

Tangible fixed assets are held at cost, subject to the property revaluations carried out at March 31, 1995 and the fleet revaluations carried out at March 31, 1988 which are being retained in accordance with the transitional provisions of FRS 15 'Tangible Fixed Assets'. The group has a policy of not revaluing tangible fixed assets. Depreciation is calculated to write off the cost or valuation, less estimated residual value, on a straight line basis.

#### a Capitalisation of interest on progress payments

Interest attributed to progress payments made on account of aircraft and other assets under construction is capitalised and added to the cost of the asset concerned. Interest capitalised in respect of progress payments on those aircraft which subsequently become subject to extendible operating lease arrangements is carried forward and written off over the initial lease period.

#### b Fleet

- i) *Cost or valuation:* All aircraft are stated at cost, net of manufacturers' credits, with the exception of a small number that are stated at March 31, 1988 valuations, with subsequent expenditure stated at cost. The Concorde fleet remains at nil book value.
- ii) *Depreciation:* Fleet assets owned, or held on finance leases or hire purchase arrangements, are depreciated at rates calculated to write down the cost or valuation to the estimated residual value at the end of their planned operational lives. Cabin interior modifications, including those required for brand changes and re-launches, are depreciated over the lower of 5 years and the remaining life of the aircraft. Residual values and operational lives are reviewed annually.

#### c Property and equipment

Freehold properties and certain leasehold properties, professionally valued at March 31, 1995, are included in these accounts on the basis of that valuation. Subsequent additions are included at cost. Provision is made for the depreciation of all property and equipment, apart from freehold land, based upon expected useful lives or, in the case of leasehold properties, over the duration of the leases, if shorter.

#### d Leased and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, under which substantially all the risks and rewards of ownership are transferred to the group, the assets are treated as if they had been purchased outright. The amount included in the cost of tangible fixed assets represents the aggregate of the capital elements payable during the lease or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase payments made, is included in creditors. The amount included in the cost of tangible fixed assets is depreciated on the basis described in the preceding paragraphs and the interest element of lease or hire purchase payments made is included in interest payable in the profit and loss account. Payments under all other lease arrangements, known as operating leases, are charged to the profit and loss account in equal annual amounts over the period of the lease. In respect of aircraft, operating lease arrangements allow the group to terminate the leases after a limited initial period, normally 5 to 7 years, without further material financial obligations. In certain cases the group is entitled to extend the initial lease period on pre-determined terms; such leases are described as extendible operating leases.

### Aircraft and engine overhaul expenditure

Aircraft and engine spares acquired on the introduction or expansion of a fleet are carried as tangible fixed assets and generally depreciated in line with the fleet to which they relate. Replacement spares and all other costs relating to the maintenance and overhaul of aircraft and engines are charged to the profit and loss account on consumption and as incurred respectively.

### Stocks

Stocks including aircraft expendables, are valued at the lower of cost and net realisable value.

### Cash and liquid resources

Cash includes cash in hand and deposits repayable on demand with any qualifying financial institution, less overdrafts from any qualifying financial institution repayable on demand. Liquid resources includes current asset investments held as readily disposable stores of value.

## 1 Accounting policies continued

### Pension and other post-retirement benefits

Retirement benefits are payable through separately funded United Kingdom pension schemes with equivalent arrangements for overseas territories. Contributions to pension funds are made on the basis of independent actuarial advice and charged to the profit and loss account so as to spread the cost over the remaining service lives of the employees.

Provision is made based on actuarial advice for post-retirement medical benefits of employees in the United States.

### Frequent flyer programmes

The group operates two principal frequent flyer programmes. The Airline scheme, 'Executive Club', allows frequent travellers to accumulate 'BA Miles' mileage credits which entitle them to a choice of various awards, including free travel. In addition, Airmiles Travel Promotions Limited sells 'Airmiles' to United Kingdom companies to use for promotional incentives. The direct incremental cost of providing free redemption services, including British Airways flights, in exchange for redemption of miles earned by members of the group's Executive Club and Airmiles schemes is accrued as members of these schemes accumulate mileage. Costs accrued include incremental fuel, catering servicing costs and cost of redemptions on air and non-air partners; these costs are charged to cost of sales.

### Deferred tax

Full provision is made for deferred tax on all material timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date.

Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Restructuring provisions are made for direct expenditures relating to a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

### Foreign currency translation

Foreign currency balances are translated into sterling at the rates ruling at the balance sheet date, except for certain loan repayment instalments which are translated at the forward contract rates where instalments have been covered forward at the balance sheet date. Aircraft which are financed in US dollars, either by loans, finance leases or hire purchase arrangements, are regarded together with the related assets and liabilities as a separate group of assets and liabilities and accounted for in US dollars. The amounts in US dollars are translated into sterling at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related US dollar loans are taken to reserves. Exchange differences arising on the translation of net assets of overseas subsidiary undertakings and associated undertakings are taken to reserves. Profits and losses of such undertakings are translated into sterling at average rates of exchange during the year. All other profits or losses arising on translation are dealt with through the profit and loss account.

### Derivatives and financial instruments

The group's policies for using derivatives and financial instruments are explained in the Operating and Financial Review on page 10.

The group's accounting policy for derivatives is to defer and only recognise in the group profit and loss account gains and losses on hedges of revenues or operating payments as they crystallise.

Amounts payable or receivable in respect of interest rate swap agreements are recognised in the net interest payable charge over the period of the contracts on an accruals basis. Cross currency swap agreements and forward foreign exchange contracts taken out to hedge borrowings are brought into account in establishing the carrying values of the relevant loans, leases or hire purchase arrangements in the balance sheet. Gains or losses on forward foreign exchange contracts to hedge capital expenditure commitments are recognised as part of the total sterling carrying cost of the relevant tangible asset as the contracts mature or are closed out.

Short-term debtors and creditors are held at fair value and have therefore been excluded from the financial instrument disclosures except Note 26 on currency exposures.

## 2 Turnover

£ million	Group	
	2002	2001
Traffic revenue		
<i>Scheduled services – passenger</i>	7,036	7,803
<i>– freight and mail</i>	483	579
	7,519	8,382
<i>Non-scheduled services</i>	52	50
	7,571	8,432
Other revenue (including aircraft maintenance, package holidays and other airline services)	769	846
	8,340	9,278

## 3 Geographical analysis of turnover and operating (loss)/profit

### a Turnover

£ million	Group			
	By area of original sale		By area of destination	
	2002	2001	2002	2001
Europe	5,402	6,054	3,208	3,388
<i>United Kingdom</i>	4,101	4,632	863	815
<i>Continental Europe</i>	1,301	1,422	2,345	2,573
The Americas	1,549	1,745	2,863	3,450
Africa, Middle East and Indian sub-continent	789	783	1,262	1,304
Far East and Australasia	600	696	1,007	1,136
	8,340	9,278	8,340	9,278

### b Operating (loss)/profit

£ million	Group	
	By area of destination	
	2002	2001
Europe	(244)	(172)
The Americas	144	470
Africa, Middle East and Indian sub-continent	91	92
Far East and Australasia	(101)	(10)
	(110)	380

# Notes to the accounts continued

## 4 Analysis of operating expenditure

£ million	Group	
	2002	2001
Employee costs	2,329	2,376
Depreciation and amortisation	770	715
Aircraft operating lease costs	199	221
Fuel and oil costs	1,028	1,102
Engineering and other aircraft costs	673	662
Landing fees and en route charges	615	645
Handling charges, catering and other operating costs	1,110	1,303
Selling costs	824	1,135
Accommodation, ground equipment costs and currency differences	822	739
	8,370	8,898
Exceptional operating charge for restructuring costs under the Future Size and Shape Programme	80	
Total operating expenditure	8,450	8,898
Total operating expenditure comprises:		
Cost of sales	8,291	8,757
Administrative expenses	159	141
Total operating expenditure	8,450	8,898

## 5 Operating (loss)/profit

### a Reconciliation of operating (loss)/profit to cash inflow from operating activities

£ million	Group	
	2002	2001
Group operating (loss)/profit	(110)	380
Depreciation and amortisation	770	715
Other items not involving the movement of cash		(1)
Decrease/(increase) in stocks and debtors	250	(38)
(Decrease)/increase in creditors	(89)	204
Increase/(decrease) in provisions for liabilities and charges	45	(9)
Cash inflow from operating activities	866	1,251

### b Operating (loss)/profit is arrived at after charging:

#### Depreciation of group tangible fixed assets

£ million	Group	
	2002	2001
<i>Owned assets</i>	342	335
<i>Finance leased aircraft</i>	161	132
<i>Hire purchased aircraft</i>	210	202
<i>Other leasehold interests</i>	50	43
	763	712

#### Operating lease costs

£ million	Group	
	2002	2001
<i>Lease rentals – aircraft</i>	199	221
<i>– property</i>	146	128
<i>Hire of equipment and charter of aircraft and crews</i>	147	163
	492	512

## 5 Operating (loss)/profit continued

Auditors' remuneration	Group	
£'000	2002	2001
<i>Group auditors- audit fees</i>	1,383	1,247
<i>- other professional fees</i>		
<i>- United Kingdom</i>	1,752	3,560
<i>- overseas</i>	209	582
	3,344	5,389

Directors' emoluments	Group	
£'000	2002	2001
<i>Fees</i>	407	507
<i>Salary and benefits</i>	1,122	962
<i>Bonus</i>		326
	1,529	1,795

The report of the Remuneration Committee discloses full details of directors' emoluments and can be found on pages 17 to 19.

## 6 Employee costs and numbers

Number	Group	
	2002	2001
The average number of persons employed in the group during the year was as follows:		
United Kingdom	49,793	50,086
Overseas	11,667	12,089
	61,460	62,175

£ million	Group	
	2002	2001
Wages and salaries	1,661	1,682
Social security costs	169	167
Contributions to pension schemes	147	124
	1,977	1,973

## 7 Share of operating profit in associates

£ million	Group	
	2002	2001
Operating profits less losses	22	64

## 8 Other income and charges

£ million	Group	
	2002	2001
Income from trade investments	1	1
Government compensation (see note below)	22	
Other	(2)	
	21	1
Other income and charges represented by:		
Group	21	1

British Airways received Government compensation for the closure of US and Israeli airspace following September 11, 2001.



## Notes to the accounts continued

### 9 Profit/(Loss) on sale of fixed assets and investments (see also Note 19)

£ million	Group	
	2002	2001
Net profit on disposal of investment in go	98	
Net profit on disposal of investment in France Telecom (formerly shares held in Equant)	23	
Net loss on disposal of investment in Participations Aéronautiques		(54)
Net loss on disposal of Bedford Associates	(9)	
Share of net profit on disposal of investment in Amadeus by Iberia		22
Net profit/(loss) on disposal of other fixed assets and investments	33	(37)
	145	(69)
Profit/(loss) on sale of fixed assets and investments represented by:		
Group	142	(96)
Associates	3	27
	145	(69)

### 10 Net interest payable

£ million	Group	
	2002	2001
Interest payable		
<i>On bank loans</i>	60	60
<i>On finance leases</i>	119	117
<i>On hire purchase arrangements</i>	153	212
<i>On other loans, including interest of £11 million (2001: £11 million) on Convertible Capital Bonds 2005</i>	49	35
	381	424
Interest capitalised	(7)	(35)
	374	389
Interest receivable	(50)	(92)
Retranslation credits on currency borrowings	(46)	(71)
	278	226
Net interest payable represented by:		
Group	271	215
Associates	7	11
	278	226

In respect of all loans, including finance lease and hire purchase arrangements repayable in whole or in part after five years, the latest repayment date is December 2032.

Interest costs on progress payments are capitalised at a rate based on LIBOR (London Interbank Offered Rate) plus 0.5 per cent to reflect the average cost of borrowing to the group unless specific borrowings are used to meet the payments, in which case the actual rate is used.

## 11 Tax

### a Analysis of (credit)/charge for the year

£ million	Group	
	2002	2001 Restated
<b>Current tax</b>		
British Airways Plc and subsidiary undertakings		
<i>United Kingdom corporation tax at 30% (2001: 30%)</i>	3	8
<i>Less: relief for overseas tax</i>	(2)	(8)
<b>UK tax</b>	1	
<b>Overseas tax</b>	3	7
<b>Advance corporation tax</b>		(1)
<b>Prior year adjustments</b>	(3)	(8)
	1	(2)
Share of taxation of associated undertakings	(1)	24
	-	22

There is no UK tax payable on the operating result for the year (2001: £Nil). UK tax arises on dividend remittances from overseas and is partially offset by double tax relief.

£ million	Group	
	2002	2001 Restated
<b>Deferred tax</b>		
Accelerated capital allowances	(42)	51
Other timing differences	(16)	9
Unrelieved losses	(13)	(13)
<b>Total deferred tax (credit)/charge</b>	(71)	47
<b>Tax (credit)/charge on profit on ordinary activities</b>	(71)	69

During the year, the company implemented FRS 19 'Deferred Tax' (See Note 34). Under the options allowed the company chose not to discount the resulting provision. Within the tax credit for the year ended March 31, 2002 is a net credit of £71 million which arises as a result of implementing this standard. In addition, the comparatives have been restated, resulting in an increase to the tax charge of £47 million for the year ended March 31, 2001.

There is a charge of £3 million in relation to the sale of go and our shares in France Telecom (formerly shares held in Equant) which reflects the use of brought forward trading losses. The tax credit relating to the exceptional operating charge is £24 million.

### b Factors affecting the tax charge for the year

The current tax credited for the period is less than the loss at the standard rate of corporation tax in the UK (30%). The differences are explained below:

£ million	Group	
	2002	2001
(Loss)/profit on ordinary activities before tax	(200)	150
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	(60)	45
Effects of:		
Expenses not deductible for tax purposes	29	7
Loss on disposal of Participations Aéronautiques		16
Profits not taxable in connection with disposals of go and France Telecom	(35)	
Timing differences:		
Capital allowances for period in excess of depreciation	42	(51)
Other differences	16	(9)
Unrelieved UK losses	13	13
Lower tax rates on overseas earnings	(9)	1
Unrelieved overseas losses	8	10
Non taxable overseas income	(1)	(1)
Adjustments to tax charge in respect of previous periods	(3)	(8)
Advance corporation tax write back		(1)
<b>Current tax charge for the year (Note 11a)</b>	-	22

# Notes to the accounts continued

## 11 Tax continued

### c Factors that may affect future tax charges

Based on current capital investment plans, and the level of unused allowances, the group expects to be able to claim capital allowances that are at least equal to depreciation. In addition, the group has substantial current and brought forward tax losses which should significantly reduce tax payments in future years.

No provision has been made for deferred tax on gains arising on the revaluation of fixed assets or where potentially taxable gains have been rolled over into replacement assets since such gains would become taxable only if the assets were sold without it becoming possible to claim further rollover relief. The total amount unprovided for is approximately £29 million.

No deferred tax has been provided on the unremitted earnings of overseas subsidiaries and associates because there is no current intention to remit. Additionally, no deferred tax asset has been recognised in respect of overseas tax losses as the utilisation of such losses is uncertain.

## 12 Dividends

£ million	Group	
	2002	2001
Interim dividend (2001: 5.10p per share)		55
Final dividend proposed (2001: 12.80p per share)		138
	–	193

There was no charge to the profit and loss account in relation to 2000-01 final dividends paid to Convertible Capital Bond holders (1999-00: £Nil), who converted their bonds in June 2001, in accordance with the terms of the bond.

## 13 (Loss)/earnings per share

	Group			
	(Loss)/profit		(Loss)/earnings per share	
	2002	2001	2002	2001
	£m	Restated £m	Pence	Restated Pence
(Loss)/profit for the year and basic (loss)/earnings per share	(142)	67	(13.2)	6.2
Diluted (loss)/profit for the year and (loss)/earnings per share	(142)	67	(13.2)	6.2
Weighted average number of shares for basic EPS ('000)			1,076,042	1,075,496
Dilutive potential ordinary shares:				
<i>Outstanding share options ('000)</i>			1,924	9,667
Weighted average number of shares for diluted EPS ('000)			1,077,966	1,085,163

Basic (loss)/earnings per share are calculated on a weighted average number of ordinary shares in issue as adjusted for shares held for the purposes of Employee Share Ownership Plans including the Long Term Incentive Plan.

## 14 Intangible assets

Goodwill	Group	
	2002	2001
£ million		
Cost		
Balance at April 1	64	63
Additions (Note 20)	53	1
Other movements	(1)	
Balance at March 31	116	64
Amortisation		
Balance at April 1	4	1
Charge for the year	7	3
Balance at March 31	11	4
Net book amounts		
March 31, 2002	105	
March 31, 2001		60

## 15 Tangible assets

### a Group

Group total

£ million				Group total	
	Fleet	Property	Equipment	2002	2001
<b>Cost or valuation</b>					
Balance at April 1	12,453	1,690	954	15,097	14,394
Exchange movements	6	1	(1)	6	263
Additions – net of refund of progress payments (Note 15e)	894	62	77	1,033	1,412
Disposals	(1,046)	(62)	(46)	(1,154)	(834)
Reclassifications		(46)	46		(138)
<b>Balance at March 31</b>	<b>12,307</b>	<b>1,645</b>	<b>1,030</b>	<b>14,982</b>	<b>15,097</b>
<b>Depreciation</b>					
Balance at April 1	3,692	272	471	4,435	4,100
Exchange movements	1		(1)		91
Charge for the year	597	65	101	763	712
Disposals	(655)	(27)	(43)	(725)	(434)
Reclassifications					(34)
<b>Balance at March 31</b>	<b>3,635</b>	<b>310</b>	<b>528</b>	<b>4,473</b>	<b>4,435</b>
<b>Net book amounts</b>					
March 31, 2002	8,672	1,335	502	10,509	
March 31, 2001	8,761	1,418	483		10,662
<b>Analysis at March 31</b>					
Owned	2,090	1,151	430	3,671	3,790
Finance leased	2,228			2,228	2,002
Hire purchase arrangements	3,710			3,710	3,932
Progress payments	214	121	71	406	567
Assets held for resale	34			34	14
Assets not in current use	88	8		96	
Capitalised interest	308	55	1	364	357
	8,672	1,335	502	10,509	10,662
<b>The net book amount of property comprises:</b>					
Freehold				325	374
Long leasehold				420	434
Short leasehold				590	610
				1,335	1,418
<b>Net book amount</b>					
	Valuation/cost	Depreciation		2002	2001
Revalued fleet and properties are included in the accounts at the following amounts:					
<i>Fleet – valuation</i>		73	71	2	30
<i>– subsequent additions at cost</i>		14	14		7
<i>Property – valuation</i>		494	72	422	443
<i>– subsequent additions at cost</i>		82	19	63	66
March 31, 2002		663	176	487	
March 31, 2001		848	302		546
If these assets had not been revalued they would have been included at the following amounts:					
March 31, 2002		346	144	202	
March 31, 2001		526	270		256

# Notes to the accounts continued

## 15 Tangible assets continued

### b Company

Company total

£ million	Fleet	Property	Equipment	2002	2001
<b>Cost or valuation</b>					
Balance at April 1	12,396	1,591	793	14,780	13,954
Exchange movements	6	1		7	260
Additions – net of refund of progress payments	721	59	62	842	1,364
Disposals	(1,015)	(60)	(37)	(1,112)	(660)
Net transfers to subsidiary undertakings	(103)	(3)	(11)	(117)	
Reclassifications		(46)	46		(138)
<b>Balance at March 31</b>	<b>12,005</b>	<b>1,542</b>	<b>853</b>	<b>14,400</b>	<b>14,780</b>
<b>Depreciation</b>					
Balance at April 1	3,683	249	423	4,355	3,957
Exchange movements	1		(1)		90
Charge for the year	579	61	78	718	686
Disposals	(648)	(25)	(37)	(710)	(344)
Net transfers to/(from) subsidiary undertakings	3	1	(8)	(4)	
Reclassifications					(34)
<b>Balance at March 31</b>	<b>3,618</b>	<b>286</b>	<b>455</b>	<b>4,359</b>	<b>4,355</b>
<b>Net book amounts</b>					
March 31, 2002	8,387	1,256	398	10,041	
March 31, 2001	8,713	1,342	370		10,425
<b>Analysis at March 31</b>					
Owned	1,879	1,073	327	3,279	3,554
Finance leased	2,228			2,228	2,002
Hire purchase arrangements	3,637			3,637	3,932
Progress payments	214	120	71	405	567
Assets held for resale	33			33	14
Assets not in current use	88	8		96	
Capitalised interest	308	55		363	356
	8,387	1,256	398	10,041	10,425
<b>The net book amount of property comprises:</b>					
Freehold				325	373
Long leasehold				355	367
Short leasehold				576	602
				1,256	1,342

	Valuation/cost	Depreciation	Net book amount	
			2002	2001
Revalued fleet and properties are included in the accounts at the following amounts:				
<i>Fleet – valuation</i>	73	71	2	30
– subsequent additions at cost	14	14		7
<i>Property – valuation</i>	494	72	422	443
– subsequent additions at cost	82	19	63	66
March 31, 2002	663	176	487	
March 31, 2001	848	302		546
If these assets had not been revalued they would have been included at the following amounts:				
March 31, 2002	346	144	202	
March 31, 2001	526	270		256

## 15 Tangible assets continued

### c Revaluation

All freehold properties of the group, and certain leasehold properties, where leases give long-term security of tenure and rights to development, disposal and sub-letting, were revalued at open market value for existing use at March 31, 1995.

### d Depreciation

Fleets are generally depreciated over periods ranging from 15 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

per cent	Group	
	2002	2001
Boeing 747-200, 747-400 and 777-200	3.7	3.8
Boeing 767-300 and 757-200	4.6	4.5
Airbus A320, A319 and Boeing 737-400	4.9	4.9
Avro RJ100, Embraer RJ145 and British Aerospace 146	4.5	5.6

Property, apart from freehold land, is depreciated over its expected useful life subject to a maximum of 50 years. Equipment is depreciated over periods ranging from 3 to 25 years, according to the type of equipment.

### e Analysis of group tangible asset additions

£ million	Group total				
	Fleet	Property	Equipment	2002	2001
Cash paid	647	42	68	757	1,115
Acquisitions under loans, finance leases and hire purchase arrangements	500	12		512	663
Acquisition of subsidiary undertakings	155	4	2	161	
Capitalised interest	5	2		7	35
Accrual movements	(5)	2	7	4	(28)
	1,302	62	77	1,441	1,785
Refund of progress payments	(408)			(408)	(373)
	894	62	77	1,033	1,412

## 16 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided in the accounts amounts to £749 million for the group (2001: £1,160 million) and £723 million for the company (2001: £1,155 million).

The outstanding commitments include £25 million which relates to the acquisition of 2 Embraer aircraft on order and £680 million which relates to the acquisition of Airbus A320 family of aircraft scheduled for delivery over the next four years. It is intended that these aircraft will be financed partially by cash holdings and internal cash flow and partially through external financing, including committed facilities arranged prior to delivery.

At March 31, 2002 British Airways had undrawn committed aircraft financing facilities of US\$155 million (expires March 31, 2003), a further US\$483 million facility (expires November 19, 2013) and a committed short-term unsecured revolving credit facility of US\$100 million (expires November 15, 2002) together with unused overdraft facilities of £40 million. Undrawn uncommitted money market lines of £60 million were held with a number of banks.

## Notes to the accounts continued

### 17 Operating lease commitments

#### a Fleet

£ million	Group		Company	
	2002	2001	2002	2001
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
<i>Within one year</i>	45	8	17	6
<i>Between one and five years</i>	79	150	55	73
<i>Over five years</i>	44	58	4	9
Within one year	168	216	76	88
Between one and five years	380	519	143	175
Over five years	94	123	2	8
	642	858	221	271

#### b Property and equipment

£ million	Group		Company	
	2002	2001	2002	2001
The aggregate payments, for which there are commitments under operating leases as at the end of the year, fall due as follows:				
<i>Amounts payable within one year relate to commitments expiring as follows:</i>				
<i>Within one year</i>	25	23	25	22
<i>Between one and five years</i>	16	23	15	22
<i>Over five years</i>	35	33	34	33
Within one year	76	79	74	77
Between one and five years	165	197	157	189
Over five years, ranging up to the year 2145	1,456	1,632	1,439	1,613
	1,697	1,908	1,670	1,879

Property and equipment commitments relate largely to property leases.

### 18 Investments

#### a Group

##### i) Associated undertakings – All amounts in respect of equity

£ million	Group total	
	2002	2001
Balance at April 1	381	507
Exchange movements	26	(26)
Additions	22	36
Goodwill amortisation	(1)	(1)
Share of attributable results	(1)	(18)
Share of movements on other reserves	31	(5)
Disposals	(33)	(11)
Partial refund of initial investment in Iberia		(101)
Balance at March 31	425	381
Equity comprises:		
Cost of shares	385	390
Goodwill (less amortisation)	23	19
Goodwill set off	(69)	(80)
Share of post-acquisition profits	64	65
Share of movements on other reserves	22	(13)
	425	381

## 18 Investments continued

### ii) Trade investments

£ million	Cost		Provisions		Group total	
	Shares	Loans	Shares	Loans	2002	2001
Balance at April 1	18	5	(2)	(1)	20	35
Additions	7	15			22	13
Disposal						(28)
Provision			(3)		(3)	
Balance at March 31	25	20	(5)	(1)	39	20

During the year the group invested a further £19 million in the Airline Group, £4 million of equity and £15 million of long-term senior secured loan notes and a further £3 million in Cordiem LLC. In November 2001, the group disposed of its investment in France Telecom (formerly shares held in Equant) of £0.25 million for cash proceeds, net of costs, of £23 million.

### iii) Investment in own shares

£ million	Group	
	2002	2001
Investment in own shares	25	25

Investment in own shares consist of shares held by British Airways Plc Employee Benefits Trustees (Jersey) Limited, a wholly owned subsidiary, for the purposes of the employee share ownership plans including the Long Term Incentive Plan. At March 31, 2002 the group and company held 6,650,000 shares for the Long Term Incentive Plan and other employee share schemes (2001: 6,650,000 shares). The purchase of shares was financed by British Airways Plc granting a loan to British Airways Plc Employee Benefits Trustees (Jersey) Limited.

### Net book value of total investments

£ million	Associated undertakings	Trade investments	Investment in own shares	Group total	
				2002	2001
Listed	408	1	25	434	307
Unlisted	17	38		55	119

### Market value of listed investments

£ million	Group total	
	2002	2001
Associated undertakings	647	276
Trade investments	3	40
Investment in own shares	16	21

The group's principal investments in subsidiary undertakings, associated undertakings and trade investments are listed on page 54.

## b Company

### i) Subsidiary undertakings and quasi-subsiary

£ million	Cost		Provisions		Company total	
	Shares	Loans	Shares	Loans	2002	2001
Balance at April 1	2,113	54	(774)		1,393	1,391
Exchange movements	(1)				(1)	4
Additions	4				4	1
Repurchase of shares	(91)				(91)	
Disposal	(25)				(25)	(3)
Provision			(14)		(14)	
Balance at March 31	2,000	54	(788)		1,266	1,393

### ii) Associated undertakings

Balance at April 1	14				14	2
Additions	10				10	12
Balance at March 31	24				24	14

### iii) Trade investments

Balance at April 1	17	5	(2)	(1)	19	34
Additions	7	15			22	13
Disposal						(28)
Provision			(3)		(3)	
Balance at March 31	24	20	(5)	(1)	38	19



# Notes to the accounts continued

## 18 Investments continued

### iv) Investment in own shares

£ million	Company total	
	2002	2001
Investment in own shares	25	25

See Note 18a iii)

### Net book value of total investments

£ million	Subsidiary and Quasi-subsidiary undertakings	Associated undertakings	Trade investments	Investment in own shares	Company total	
					2002	2001
Listed				25	25	25
Unlisted	1,266	24	38		1,328	1,426

### Market value of listed investments

£ million	Company total	
	2002	2001
Trade investments		36
Investment in own shares	16	21

## 19 Disposal of subsidiary undertakings

i) On June 14, 2001, the group completed the disposal of its 100 per cent holding in Go Fly Ltd ('go') to 3i Plc. The profit arising from the disposal was as follows:

£ million	Group total
Sales proceeds (net of disposal costs)	97
Net liabilities of go at June 14, 2001	1
Gain on disposal before tax	98
Tax	(4)
Gain on disposal after tax	94

ii) On December 4, 2001 the group completed the disposal of its 100 per cent holding in Bedford Associates Inc. The loss on disposal reflects £9 million of goodwill written back from reserves.

## 20 Acquisition of interest in subsidiary undertakings

On May 10, 2001, British Airways completed the purchase of 100 per cent of British Regional Air Lines Group, a regional airline headquartered on the Isle of Man.

The following table sets out the fair value of the assets and liabilities at the date of acquisition and the goodwill arising.

### i) Goodwill

£ million	Group total		
	Book value	Adjustments	Fair value
Fixed assets	161		161
Current assets	48		48
Cash less overdrafts	4		4
Creditors: amounts falling due within one year	(54)		(54)
Net current assets	(2)		(2)
Total assets less current liabilities	159		159
Creditors: amounts falling due after more than one year	(113)	(18)	(131)
Net assets at date of acquisition	46	(18)	28
Cash consideration			78
Legal and professional fees paid			3
Net cost of investment			81
Goodwill arising			53

Fair value adjustments represent £10 million in respect of the deficit on the company pension scheme and £8 million in respect of full provision for deferred tax in accordance with British Airways' accounting policy.

## 20 Acquisition of interest in subsidiary undertakings continued

### ii) Cashflow effect of purchase of subsidiary undertakings

£ million	Group total
Cash paid	(78)
Net cash acquired	4
Legal and professional costs paid	(3)
	(77)

### iii) Summarised statement of operations

During the period since acquisition, British Regional Airlines contributed turnover of £199 million and operating profit of £11 million to the results of the group. The net assets of the company at March 31, 2002 were £36 million. Profits after tax for the period ended December 31, 2000, as disclosed in the last published audited financial statements of British Regional Airlines, and for the period ended May 10, 2001, were £9.9 million and £1.4 million respectively.

## 21 Acquisition of associates

On April 30, 2001, in conjunction with Thomas Cook Holdings Ltd, British Airways acquired a 50 per cent holding in a newly formed company, Accoladia Ltd, a package holiday business. The business of Accoladia Ltd was formed by the merger of Thomas Cook Holidays Ltd and the outbound tour business of British Airways Holidays Ltd, a wholly owned subsidiary of British Airways Plc. Goodwill of £5 million arose on the acquisition.

## 22 Partial deemed disposal of associates

On October 25, 2001 and December 10, 2001, Qantas Airways issued new shares by way of an institutional placement and shareholder placing respectively. British Airways did not take up its allocation which resulted in the dilution of the group's shareholding from 25 per cent to 21.4 per cent. The loss on disposal resulting from the deemed disposal was not material.

## 23 Quasi-subsiary

Summarised financial information of the London Eye Company Limited, prepared in accordance with British Airways' accounting policies, is set out below.

£ million	Total	
	2002	2001
<b>Profit and Loss Account</b>		
Turnover	33	29
Operating profit	10	5
Loss before tax for the year	(11)	(12)
<b>Balance Sheet</b>		
Fixed assets	74	76
Current assets	12	9
Creditors: Amounts falling due within one year	(13)	(11)
Net current liabilities	(1)	(2)
Total assets less current liabilities	73	74
Creditors: Amounts falling due after more than one year	(99)	(89)
Capital and reserves deficit	(26)	(15)
<b>Cash Flow Statement</b>		
Cash inflow from operating activities	15	13
Servicing of finance	(1)	(2)
Capital expenditure and financial investment	(4)	(6)
Net cash inflow before management of liquid resources and financing	10	5
Financing	(7)	
Increase in cash	3	5

There are no recognised gains or losses other than the loss for the year. The loss for the year includes interest payable to British Airways of £19 million (2001: £15 million).

## Notes to the accounts continued

### 24 Investment in associates

#### Summarised financial information

£ million	Group	
	2002	2001
Operating revenue	1,593	1,223
Profit before tax for the year	19	56
Share of fixed assets	941	1,114
Share of current assets	589	326
Share of assets	1,530	1,440
Liabilities due within one year	(519)	(505)
Liabilities due after more than one year	(609)	(584)
Share of liabilities	(1,128)	(1,089)
Share of net assets at associated companies' year end accounting dates	402	351
Goodwill on acquisition (less amortisation)	23	19
Investment in Opodo Limited		11
Total group investment in associated undertakings at March 31	425	381

The sterling equivalents for the statements of operations of Qantas Airways Limited have been translated at the average exchange rates for the six months ended June 30 and six months ended December 31. The sterling equivalents for the results of Iberia have been translated using the average rate for the twelve months ended December 31. Balance sheets for all associates have been translated at the closing rates ruling at March 31.

The only associate which accounts for more than 25 per cent of any of the gross assets, gross liabilities, turnover or operating results (on a three year average) of the group is Qantas. For the year ending December 31, 2001, the group's share of Qantas' results was turnover of £942 million (2000: £927 million), profit before tax of £27 million (2000: £61 million), tax of £6 million (2000: £24 million) and profit after tax of £21 million (2000: £37 million).

As at December 31, 2001, the group's share of Qantas' fixed assets of £945 million (2000: £912 million), current assets of £279 million (2000: £235 million), liabilities due within one year £407 million (2000: £430 million) and liabilities due after one year or more £511 million (2000: £457 million).

### 25 Stocks

£ million	Group		Company	
	2002	2001	2002	2001
Expendables, consumables and work in progress	109	170	91	151

The replacement cost of stocks is considered to be not materially different from their balance sheet values.

### 26 Currency exposures

£ million	Net foreign currency assets/(liabilities)						Group	
	Sterling	USdollar	Euro	Japanese yen	Other	2002	2001	
Functional currency								
Sterling		323	17	(885)	208	(337)	(437)	
Euro	1	(45)				(44)	(57)	
Total March 31, 2002	1	278	17	(885)	208	(381)		
Total March 31, 2001	1	171	(101)	(813)	248		(494)	

The table above shows the monetary assets and liabilities of the group that are not denominated in the functional (or 'operating') currency of the operating unit involved other than certain non-sterling borrowings treated as hedges of aircraft accounted for as foreign currency assets, and of net investments in overseas subsidiaries. Amounts also take into account the effect of derivatives entered into to manage these currency exposures.

## 27 Debtors

£ million	Group		Company	
	2002	2001	2002	2001
Trade debtors	772	853	732	818
Amounts owed by subsidiary undertakings			109	83
Amounts owed by associated undertakings	43	39	33	26
Other debtors	73	212	55	89
Prepayments and accrued income	343	340	215	227
	1,231	1,444	1,144	1,243

Amounts due after more than one year included above are not significant.

## 28 Cash

### a Reconciliation of net cash flow to movement in net debt

£ million	Group	
	2002	2001
Decrease in cash during the year	(4)	(30)
Net cash outflow from decrease in debt and lease financing	217	524
Cash outflow/(inflow) from liquid resources	301	(159)
Changes in net debt resulting from cash flows	514	335
New loans and finance leases taken out and hire purchase arrangements made	(512)	(663)
Assumed from subsidiary undertakings acquired during the year	(117)	
Conversion of Convertible Capital Bonds 2005	1	
Divested from subsidiary undertakings sold during the year		69
Exchange movements	43	(48)
Movement in net debt during the year	(71)	(307)
Net debt at April 1	(6,223)	(5,916)
Net debt at March 31	(6,294)	(6,223)

### b Analysis of net debt

£ million	Group				
	Balance at April 1	Cash flow	Other non-cash	Exchange	Balance at March 31
Cash	71	(7)			64
Overdrafts	(3)	3			
	68	(4)			64
Short-term loans and deposits	865	301		(11)	1,155
Bank and other loans	(1,041)	(438)	(64)	(2)	(1,545)
Finance leases and hire purchase arrangements	(6,002)	655	(565)	56	(5,856)
Convertible Capital Bonds 2005	(113)		1		(112)
Year to March 31, 2002	(6,223)	514	(628)	43	(6,294)
Year to March 31, 2001	(5,916)	335	(594)	(48)	(6,223)

### c Analysis of short-term loans and deposits by currency

£ million	Group		Company	
	2002	2001	2002	2001
Sterling	847	646	815	601
US dollar	143	27	133	15
Japanese yen	165	192	164	192
	1,155	865	1,112	808

Surplus cash is deposited for the short-term for periods typically with maturity of less than six months.

## Notes to the accounts continued

### 29 Creditors: amounts falling due within one year

£ million	Group		Company	
	2002	2001	2002	2001
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	62	49	34	35
<i>Finance leases</i>	208	106	208	105
<i>Hire purchase arrangements</i>	409	329	404	329
<i>Loans from subsidiary undertakings</i>			7	7
	679	484	653	476
Overdrafts – unsecured		3		3
Trade creditors	1,091	1,211	921	1,050
Unredeemed frequent flyer liabilities	111	108	72	72
Amounts owed to subsidiary undertakings			879	1,015
Amounts owed to associated undertakings	25	30	25	30
Other creditors				
<i>Other creditors</i>	409	341	370	321
<i>Corporate tax</i>	29	31	24	24
<i>Other tax and social security</i>	40	44	34	40
	478	416	428	385
Dividends payable		139		139
Accruals and deferred income				
<i>Sales in advance of carriage</i>	716	846	687	754
<i>Accruals and deferred income</i>	101	71	45	33
	817	917	732	787
	3,201	3,308	3,710	3,957

### 30 Borrowings and other creditors: amounts falling due after more than one year

£ million	Group		Company	
	2002	2001	2002	2001
Loans, finance leases and hire purchase arrangements				
<i>Bank and other loans</i>	1,483	992	1,320	967
<i>Finance leases</i>	2,404	2,240	2,404	2,238
<i>Hire purchase arrangements</i>	2,835	3,327	2,781	3,327
<i>Loans from subsidiary undertakings</i>			288	298
	6,722	6,559	6,793	6,830
Other creditors	27	22		
Accruals and deferred income	236	207	172	133
	6,985	6,788	6,965	6,963

### 31 Loans, finance leases and hire purchase arrangements

#### a Total loans, finance leases and hire purchase arrangements

£ million		Group		Company	
		2002	2001	2002	2001
<b>Loans</b>					
<i>Bank</i>	– US dollar	US\$527m	US\$349m	US\$527m	US\$349m
	– sterling	£807m	£674m	£623m	£642m
		1,177	919	993	888
<i>Euro-sterling notes</i>	– sterling	346	100	346	100
<i>Other</i>	– sterling	22	22	15	14
<b>Loans from subsidiary undertakings</b>					
	– euro			euro300m	euro300m
	– sterling			£111m	£119m
				295	305
<b>Finance leases</b>					
	– US dollar	US\$929m	US\$720m	US\$929m	US\$720m
	– sterling	£1,961m	£1,841m	£1,959m	£1,838m
		2,612	2,346	2,612	2,343
<b>Hire purchase arrangements</b>					
	– Japanese yen	¥200,816m	¥210,883m	¥200,816m	¥210,883m
	– US dollar	US\$728m	US\$869m	US\$713m	US\$869m
	– sterling	£1,668m	£1,866m	£1,619m	£1,866m
		3,244	3,656	3,185	3,656
		7,401	7,043	7,446	7,306

Comprising:

Bank loans

<i>Repayable wholly within five years</i>	277	268	240	237
<i>Repayable in whole or in part after five years</i>	900	651	753	651
	1,177	919	993	888

Other loans, finance leases and hire purchase arrangements

<i>Repayable wholly within five years</i>	1,243	982	1,340	1,091
<i>Repayable in whole or in part after five years</i>	4,981	5,142	5,113	5,327
	6,224	6,124	6,453	6,418
	7,401	7,043	7,446	7,306

Bank and other loans are repayable up to the year 2016. In addition to finance leases and hire purchase arrangements, bank and other loans of the group amounting to US\$517 million (2001: US\$340 million), and £502 million (2001: £307 million) and bank loans of the company amounting to US\$517 million (2001: US\$340 million) and £289 million (2001: £307 million) are secured on aircraft.

#### b Analysis by type of borrowing

	Group					
	Fixed rate borrowings		Floating rate borrowings		Total	Total
	Weighted average years	Weighted average rate %	£ million	£ million	£ million	£ million
Sterling	13.6	6.77	1,518	3,284	4,802	4,503
US dollar	13.0	7.00	252	1,282	1,534	1,359
Japanese yen	6.2	1.48	1,065		1,065	1,181
<b>Total 2002</b>	<b>10.8</b>	<b>4.80</b>	<b>2,835</b>	<b>4,566</b>	<b>7,401</b>	
<b>Total 2001</b>	<b>7.2</b>	<b>4.25</b>	<b>2,004</b>	<b>5,039</b>		<b>7,043</b>

The borrowings are stated after taking into account the various interest rate swaps entered into by the group.

Floating rates of interest are based on LIBOR (London Interbank Offered Rate).

The interest rate profiles of the Convertible Capital Bonds and the euro perpetual preferred securities are disclosed separately in Notes 33 and 39 respectively.

## Notes to the accounts continued

### 31 Loans, finance leases and hire purchase arrangements continued

#### c Incidence of repayments

£ million	Bank loans	Other loans	Finance leases	Hire purchase arrangements	Group total	
					2002	2001
<b>Instalments falling due:</b>						
Within one year	55	7	208	409	679	484
After more than one year						
<i>Between one and two years</i>	59		130	373	562	577
<i>Between two and five years</i>	401		463	1,054	1,918	1,928
<i>In five years or more</i>	662	361	1,811	1,408	4,242	4,054
	1,122	361	2,404	2,835	6,722	6,559
<b>Total 2002</b>	<b>1,177</b>	<b>368</b>	<b>2,612</b>	<b>3,244</b>	<b>7,401</b>	
<b>Total 2001</b>	<b>919</b>	<b>122</b>	<b>2,346</b>	<b>3,656</b>		<b>7,043</b>
<b>Analysis of total 2002</b>						
British Airways Plc	993	361	2,612	3,185	7,151	7,001
Subsidiary undertakings	184	7		59	250	42
	1,177	368	2,612	3,244	7,401	7,043

### 32 Analysis of changes in borrowings during the year

£ million	Bank and other loans	Finance leases and hire purchase arrangements	Group total	
			2002	2001
Balance at April 1	1,041	6,002	7,043	6,944
New loans raised	495		495	214
Assumed/(divested) from subsidiary undertakings acquired during the year	64	53	117	(69)
Loans, finance leases and hire purchase arrangements undertaken to finance the acquisition of aircraft and other assets		512	512	663
Repayment of amounts borrowed	(57)	(655)	(712)	(738)
Exchange movements	2	(56)	(54)	29
Balance at March 31	1,545	5,856	7,401	7,043

### 33 Convertible Capital Bonds 2005

£ million	Group	
	2002	2001
	112	113

The terms of the 9.75 per cent Convertible Capital Bonds allow the holders to convert into British Airways Plc ordinary shares during the period June 1993 to June 2005 on the basis of one ordinary share for every 2.34 (adjusted for the effect of the 1993 rights issue) Bonds held. On June 15, 2001, 61,000 ordinary shares were issued in exchange for 143,000 Bonds (June 15, 2000, 145,000 ordinary shares were issued in exchange for 341,000 Bonds). The terms also provide that on maturity in 2005, the company may require remaining bondholders to convert their Bonds into ordinary shares of the company which would be sold on their behalf. If the proceeds of such a sale are less than the issue price of the Bonds, the company has to fund any deficit from its own resources. Full conversion of the remaining Bonds would require the issue of 48,067,000 ordinary shares.

The mid market closing prices of the Bonds and the ordinary shares at March 31, 2002 as quoted in the London Stock Exchange Daily Official List for March 28, 2002 were 132.5p and 244.0p each respectively.

### 34 Provision for deferred tax (see also Note 11)

Provision for deferred tax has been made at 30 per cent (2001: 30 per cent):

£ million	Group		Company	
	2002	2001 <i>Restated</i>	2002	2001 <i>Restated</i>
Accelerated capital allowances less unrelieved losses	1,290	1,311	1,262	1,304
Other timing differences	(16)	3	(41)	(24)
Tax losses carried forward	(243)	(220)	(236)	(220)
	1,031	1,094	985	1,060
Movement in provision:			Group	Company
			2002	2002
Provision at start of year			1,094	1,060
Acquisitions during the year			8	
Deferred tax credit in profit and loss (note 11)			(71)	(75)
Provision at end of period			1,031	985

### 35 Provisions for liabilities and charges

£ million	Group			
	Balance at April 1	Transfers from profit and loss account	Provisions utilised	Balance at March 31
Pensions and similar obligations	14		(2)	12
Post-retirement medical benefits	29	3	(1)	31
Severance	27	80	(24)	83
Year to March 31, 2002	70	83	(27)	126
<i>Year to March 31, 2001</i>	<i>81</i>	<i>49</i>	<i>(60)</i>	<i>70</i>
Analysis of total 2002				
British Airways Plc	69	83	(26)	126
Subsidiary undertakings	1		(1)	
Year to March 31, 2002	70	83	(27)	126

The severance provision at March 31, 2002, covers both pension augmentation costs relating to severance for individuals who have left the group in the current financial year and committed severance costs to be paid during the next financial year.

### 36 Share capital

Ordinary shares of 25p each	Group and Company			
	2002		2001	
	Number of shares '000	£ million	Number of shares '000	£ million
<b>Authorised</b>				
At April 1 and March 31	1,508,000	377	1,508,000	377
<b>Allotted, called up and fully paid</b>				
At April 1	1,082,552	271	1,081,515	270
Conversion of Convertible Capital Bonds	61		145	
Exercise of options under Employee Share Option Schemes	144		892	1
At March 31	1,082,757	271	1,082,552	271



# Notes to the accounts continued

## 37 Share options

	Group and Company	
	2002	2001
Number of shares '000		
Outstanding at April 1	52,778	50,999
Granted in the year	7,277	6,327
Exercised during the year	(144)	(892)
Expired/cancelled	(16,599)	(3,656)
At March 31	43,312	52,778
Date exercisable	2002-2011	2001-2010
Price per share	238p-465p	195p-465p
Price range of options exercised during the year	195p-418p	195p-419p

## 38 Reserves

### a Group

£ million	Share premium account	Revaluation reserve	Profit and loss account	Group total	
				2002	2001 <i>Restated</i>
Balance at April 1 as previously reported	788	290	1,866	2,944	
Prior year adjustment			(1,094)	(1,094)	
Balance at April 1 restated	788	290	772	1,850	1,830
Retained loss for the year			(142)	(142)	(126)
Transfers relating to revalued assets, including amounts realised on disposal		(20)	20		
Exchange and other movements			17	17	(30)
Goodwill written back on disposals			20	20	173
Share premium					3
Balance at March 31	788	270	687	1,745	1,850

The group profit and loss account includes cumulative retained profits in respect of associated undertakings which is shown in Note 18.

The prior year adjustment relates to the adoption of FRS 19 "Deferred Tax".

### b Goodwill

Cumulative goodwill set off against reserves at March 31 comprises:

£ million	Group total	
	2002	2001
In respect of subsidiary undertakings	433	442
In respect of associated undertakings	69	80
	502	522

### c Company

£ million	Share premium account	Revaluation reserve	Profit and loss account	Company total	
				2002	2001 <i>Restated</i>
Balance at April 1 as previously reported	788	290	1,748	2,826	
Prior year adjustment			(1,060)	(1,060)	
Balance at April 1 restated	788	290	688	1,766	1,541
Retained (loss)/profit for the year			(75)	(75)	206
Transfers relating to revalued assets, including amounts realised on disposal		(20)	20		
Exchange and other movements			(3)	(3)	16
Share premium					3
Balance at March 31	788	270	630	1,688	1,766

### 39 Non-equity minority interests

The non-equity minority interest represents Euro 300 million of 6.75 per cent fixed coupon perpetual preferred securities issued by British Airways Finance (Jersey) L.P in which the general partner is British Airways Holdings Limited, a wholly owned subsidiary of British Airways Plc. The holders of these securities have no rights against group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, the company. The effect of the securities on the British Airways group as a whole, taking into account the subordinated guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

### 40 Pension costs

British Airways operates two principal defined benefit pension schemes in the United Kingdom, the Airways Pension Scheme (APS), which is closed to new members, and the New Airways Pension Scheme (NAPS), of which currently, all new permanent employees over the age of 18 employed by the company and certain subsidiary undertakings in the United Kingdom may become members. NAPS will be closed to new members in autumn 2002 and a new defined contribution pension fund will be introduced for future new employees. The assets of these schemes are held in separate trustee-administered funds. Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to increases in payment in line with the Retail Price Index. Those provided under NAPS are based on final average pensionable pay reduced by an amount (the "abatement") not exceeding one and a half times the Government's lower earnings limit. NAPS benefits are subject to Retail Price Index increases in payment up to a maximum of 5 per cent in any one year.

Most employees engaged outside the United Kingdom are covered by appropriate local arrangements. Standard employees' contributions range from 5.75 per cent to 8.5 per cent of full pensionable pay in APS, and from 3.75 per cent to 6.5 per cent of full pensionable pay less the abatement in NAPS.

The latest actuarial valuations of APS and NAPS were made as at March 31, 2000 by an independent firm of qualified actuaries, Watson Wyatt Partners, using the attained age method for APS and the projected unit method for NAPS. These valuations showed that no further employers' contributions were required in respect of APS while for NAPS an employers' contribution equal to an average of 3.0 times the standard employees' contribution with effect for the period January 1, 2001 to March 31, 2002 (2.35 times for the period April 1, 2000 to December 31, 2000) was appropriate.

All amounts recognised as costs were either funded or paid directly.

Employer's contributions (calculated as set out above for APS and NAPS) charged in the accounts were:

£ million	Group	
	2002	2001
<i>Airways Pension Scheme</i>		
<i>New Airways Pension Scheme</i>	127	108
<i>Other pension schemes and provident funds – mainly outside the United Kingdom</i>	20	16
	147	124

At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to £6,687 million and £3,796 million respectively. The value of the assets represented 114 per cent (APS) and 93 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. In the case of APS, the market value of the assets together with future contributions from employees was sufficient to cover both past and future service liabilities. In the case of NAPS, the actuarial value of the assets together with future contributions from employees was sufficient to cover past service liabilities and some future service liabilities. The employer's contribution is intended to make up the balance of future service liabilities. The principal assumptions used in the actuarial valuations were that, over the long-term, the annual increase in earnings and (NAPS only) in dividends would be 1.5 per cent higher than annual increases in price inflation.

The annual return on investments was assumed to be 0.59 per cent (APS) or 2.75 per cent (NAPS) higher than the onward increase in earnings.

Annual pension increases, over the long-term, were assumed to be equal to price inflation for APS and 0.25 per cent less than price inflation for NAPS.

Employer contributions in respect of overseas employees have been determined in accordance with best local practice.

#### FRS 17 disclosures for the year ended March 31, 2002

The group has continued to account for pensions in accordance with SSAP 24. FRS 17 'Retirement benefits' will not be mandatory for the group until the year ending March 31, 2004, however, the following transitional disclosures are required.

per cent p.a	Group	
	APS and NAPS	At March 31, 2002 Other Schemes
Inflation	2.5	2.0 – 3.0
Rate of increase in salaries	4.0	2.5 – 6.0
Rate of increase of pensions in payment	2.5	2.0 – 8.0
Discount rate	6.0	3.0 – 8.0

## Notes to the accounts continued

### 40 Pension costs continued

Market values of the schemes' assets at March 31, 2002 were:

£ million	Group		Total
	APS and NAPS	Other Schemes	
Equities	5,024	153	5,177
Bonds	3,854	77	3,931
Others	796	49	845
	9,674	279	9,953

The following amounts at March 31, 2002 were measured in accordance with the requirements of FRS 17.

£ million	Group		
	APS and NAPS	Other Schemes	At March 31, 2002 Total
Total market value of assets	9,674	279	9,953
Present value of liabilities	8,861	373	9,234
Surplus/(deficit)	813	(94)	719
APS irrecoverable surplus	1,207		1,207
Pension liability before allowance for deferred tax	(394)	(94)	(488)
Related deferred tax	118	28	146
Net pension liability	(276)	(66)	(342)

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at March 31, 2002 would be as follows:

£ million	Group	
	At March 31, 2002	
Net assets excluding pension liability	2,207	
Pension liability	(342)	
Net assets including pension liability	1,865	
Profit and loss reserve excluding pension liability	687	
Pension liability	(342)	
Profit and loss reserve	345	

The amounts above have been calculated after taking account of pensions prepayments and provisions for pension and other post-retirement benefits, net of related deferred tax.

### 41 Forward transactions

The group had outstanding forward transactions to hedge foreign currencies and fuel purchases as follows:

	In currency		Sterling equivalents	
	2002	2001	2002	2001
Maturing within one year				
– to cover future capital commitments in US dollars		US\$70m		£42m
– to hedge future currency revenues against sterling			£34m	£71m
– to hedge future operating payments against US dollars	US\$39m	US\$38m		
– to hedge future fuel costs in US dollars	US\$757m	US\$594m	£532m	£417m
– to hedge future operating payments against sterling			£44m	£72m
– to hedge debt in foreign currency		euro49m		£31m
Maturing after one year				
– to hedge future currency revenues against sterling			£1m	£1m

## 42 Interest rate arrangements

To reduce interest rate risk, British Airways has entered into single currency interest rate swap arrangements so as to change the interest payable elements of certain loans and lease obligations from variable to fixed rates and, accordingly, accounts for such swaps as hedges.

Outstanding single currency interest rate swap arrangements are summarised as follows:

	Notional principal balance	Termination dates	Interest rates fixed payable
<b>At March 31, 2002</b>			
US dollar	US\$82m	2002 – 2003	8.9% – 9.9%
<b>At March 31, 2001</b>			
US dollar	US\$132m	2001 – 2003	8.4% – 9.9%

## 43 Fair values of financial instruments

### a Primary financial instruments held or issued to finance the group's operations

£ million	2002		2001	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash at bank and in hand and overdrafts	64	64	68	68
Short-term loans and deposits	1,155	1,155	865	865
Bank and other borrowings	(1,199)	(1,222)	(941)	(974)
Finance leases	(2,613)	(2,605)	(2,346)	(2,353)
Hire purchase arrangements	(3,243)	(3,248)	(3,656)	(3,665)
Euro-sterling notes	(100)	(99)	(100)	(123)
Convertible Capital Bonds 2005	(112)	(148)	(113)	(166)
Euro-sterling Bond 2016	(246)	(218)		
6.75 per cent perpetual preferred securities	(182)	(119)	(186)	(159)

### b Derivative financial instruments held to manage the interest rate and currency profile

£ million	Fair value	
	2002	2001
Interest rate swaps	(2)	(6)
Forward currency transactions	1	6
Fuel derivatives	43	4

No carrying amounts are shown as all items are held off balance sheet.

Included within forward currency transactions are derivative financial instruments held to hedge the currency exposure on expected future sales.

The following methods and assumptions were used by the group in estimating its fair value disclosures for financial instruments:

Bank and other loans, finance leases, hire purchase arrangements and the non Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest – the repayments which the group is committed to make have been discounted at the relevant interest rates applicable at March 31, 2002.

Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest

– these amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a marked to market basis and accordingly, a fair value cannot be determined. The carrying value of £1,065 million has therefore been included as the fair value above.

Euro sterling notes, Convertible Capital Bonds 2005, Euro-sterling Bond 2016 and 6.75 per cent perpetual preferred securities

– quoted market value.

Off balance sheet interest rate swaps

– discounted cash flow analysis, to determine the estimated amount the group would receive or pay to terminate the agreements.

Off balance sheet forward currency transactions

– difference between marked-to-market value and forward rate.

Off balance sheet over the counter (OTC) fuel derivatives

– the marked to market value of the instruments.

The fair value of all other assets and liabilities is deemed to be equal to their carrying value unless stated otherwise in the relevant note to the accounts.

## 43 Fair values of financial instruments continued

### c Hedges

The instruments used to hedge future exposures are interest rate swaps, forward currency contracts and fuel derivatives.

At March 31, 2002 there were unrecognised gains of £44 million and unrecognised losses of £2 million relating to hedges of future exposure. All of the unrecognised gains are expected to occur within one year.

At March 31, 2001 there were unrecognised gains of £14 million and unrecognised losses of £10 million relating to hedges of future exposure. All of the unrecognised gains related to the period to March 31, 2002 and of the unrecognised losses £4 million related to the period to March 31, 2002 and £6 million related to periods in excess of one year.

## 44 Contingencies

There were contingent liabilities at March 31, 2002 in respect of guarantees and indemnities entered into as part of, and claims arising from, the ordinary course of business, upon which no material losses are likely to arise.

The group and the company have guaranteed certain borrowings, liabilities and commitments which at March 31, 2002 amounted to £149 million (2001: £143 million) and £570 million (2001: £689 million) respectively. For the company these included guarantees given in respect of the Convertible Capital Bonds and the fixed perpetual preferred securities issued by subsidiary undertakings.

## 45 Related party transactions

The group has had transactions, during the year under review, with related parties, as defined in Financial Reporting Standard 8, 'Related Party Disclosures'.

As is common practice in the airline industry, British Airways, Qantas, Iberia and Comair from time to time carry each other's passengers travelling on the other airlines' tickets.

The settlement between related carriers is actioned through the IATA Clearing House, of which the airlines below are members.

### Qantas Airways Limited

The group has a 21.4 per cent equity investment in Qantas Airways Limited, and has a 'Joint Services Agreement' with the airline which started in November 1995. The agreement allows the two airlines to co-operate in developing schedules and fares and to share revenues and costs on the core 'Kangaroo' routes between Europe and Australia.

As at March 31, 2002, the net trading balance due to British Airways from Qantas (via the IATA clearing house) amounted to £18 million (2001: £13 million). The group currently wet-lease aircraft to Qantas on normal commercial terms.

### Iberia, Líneas, Aéreas de España, S.A. ('Iberia')

The group has a 9 per cent investment in Iberia, which was completed in March 2000. Areas of opportunity for co-operation have been identified, and work continues to pursue and implement these.

As at March 31, 2002, the net trading balance due to British Airways from Iberia amounted to £0.1 million (2001: £0.1 million).

### Comair Limited

The group has a 18.3 per cent investment in Comair and has a franchise agreement with the company that commenced in October 1996.

As at March 31, 2002, the net trading balance due to Comair amounted to £6 million (2001: £9 million).

### Accoladia Limited

The group has a 50 per cent investment in Accoladia. The settlement between British Airways and Accoladia is actioned through the Bank Settlement Plan of which both companies are members. As at March 31, 2002 the net trading balance was nil. The turnover during the year to March 31, 2002 was £41 million.

### Opodo Limited

The group has a 22.9 per cent investment in Opodo. The settlement between British Airways and Opodo is actioned through the Bank Settlement Plan of which both companies are members. As at March 31, 2002 the net trading balance was nil. The turnover during the year to March 31, 2002 was nil.

### Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or Officers of the Company at the end of the year which need to be disclosed in accordance with the requirements of Schedule 6 to the Companies Act 1985.

In addition to the above, the group also has transactions with related parties which are conducted in the normal course of airline business. These include the provision of airline and related services.

#### 46 Post balance sheet events

On May 8, 2002, the company entered into a binding agreement with easyJet, which grants easyJet the option to buy 100 per cent of Deutsche BA, the group's German airline subsidiary, by March 31, 2003. The amount payable by easyJet is potentially between £18 million (Euro 30 million) and £28 million (Euro 46 million) dependent on when the option is exercised.

On March 7, 2002, the company reached a conditional agreement to sell a 70 per cent shareholding in its subsidiary undertaking, World Network Services, the data management company based in India plus certain UK based assets, to Warburg Pincus, the private equity investor, for sale proceeds of £10 million. The transaction became unconditional on May 20, 2002.

#### 47 Foreign currency translation rates

	At March 31		Annual average	
	2002	2001	2001-02	2000-01
US dollar	1.42	1.43	1.43	1.49
Japanese yen	189	178	179	163
Australian dollar	2.67	2.93	2.82	2.66
Euro	1.63	1.62	1.63	1.63

# Principal investments

At March 31, 2002

## Subsidiary undertakings

Principal subsidiary undertakings are wholly-owned except where indicated.

	Principal activities	Country of incorporation and registration and principal operations
Air Miles Travel Promotions Ltd *	Airline marketing	England
BA & AA Holdings Ltd * (90 per cent of equity owned)	Holding Company	England
Britair Holdings Ltd *	Holding Company	England
British Airways Capital Ltd * (89 per cent of founders' shares owned)	Airline finance	Jersey
British Airways (European Operations at Gatwick) Ltd *	Airline operations	England
British Airways Finance B.V. *	Airline finance	Netherlands
British Airways Holdings Ltd *	Airline finance	Jersey
British Airways Holidays Ltd *	Package holidays	England
British Airways Maintenance Cardiff Ltd *	Aircraft maintenance	England
British Airways Regional Ltd *	Air travel services	England
British Airways Travel Shops Ltd *	Travel agency	England
British Asia Airways Ltd *	Air travel services	England
CityFlyer Express Ltd *	Airline operations	England
Deutsche BA Luftfahrtgesellschaft GmbH	Airline operations	Germany
British Regional Air Lines Group Plc	Airline operations	England
Speedbird Insurance Company Ltd *	Insurance	Bermuda
British Airways CitiExpress Ltd	Airline operations	England
Brymon Airways Ltd (Holding company of British Regional Air Lines Group Plc)	Holding Company	England
World Network Services Pvt Ltd *	Data processing services	India

## Quasi-subsidiary undertaking

	Principal activities	Country of incorporation and registration and principal operations
The London Eye Company Ltd * (33 per cent of equity owned)	Leisure company	England

## Associated undertaking

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
Concorde International Travel Pty Ltd	50.0	Travel services	Australia
Qantas Airways Ltd	21.4	Airline operations	Australia
Iberia, Líneas Aéreas de España, S.A. ('Iberia')	9.0	Airline operations	Spain
Comair Ltd	18.3	Airline operations	South Africa
Accoladia Ltd *	50.0	Package Holidays	England
Opodo Ltd *	22.9	Internet travel agency	England

## Trade investments

	Percentage of equity owned	Principal activities	Country of incorporation and principal operations
The Airline Group *	16.7	Air traffic control holding company	England
Cordiem LLC *	7.4	Internet trade exchange	USA

\* Owned directly by British Airways Plc

# United States generally accepted accounting principles (US GAAP) information

## US GAAP Accounting Principles

The financial statements are prepared in accordance with accounting principles generally accepted in the United Kingdom which differ in certain respects from those generally accepted in the United States. The significant differences are described below:

### Goodwill

Up to March 31, 1998, under UK GAAP, British Airways set off goodwill arising on acquisitions directly against retained earnings. Goodwill arising on acquisitions since April 1, 1998 is capitalised and amortised over its useful economic life. Under US GAAP, goodwill arising on acquisitions has always been amortised over its useful life. For the purposes of determining the differences between UK GAAP and US GAAP in relation to goodwill arising prior to March 31, 1998, the expected useful life of goodwill has been taken to be 40 years.

### Property and Fleet valuation

Under US GAAP, tangible assets must be stated at cost less accumulated depreciation in the financial statements. The valuation of properties at March 31, 1995 and fleet at March 31, 1988 incorporated by British Airways in its financial statements would not, therefore, have been included in financial statements prepared in accordance with US GAAP and the subsequent charges for depreciation would have been correspondingly lower. When such assets are sold any revaluation surplus thus realised would be reflected in income.

### Dividends

Under UK GAAP, dividends are recorded in the financial statements for the period to which the dividend relates. Under US GAAP, the liability for dividends is recorded in the financial statements when declared.

### Foreign currency translation

Aircraft which are financed in whole or in part in foreign currency, either by loans, finance lease obligations or hire purchase arrangements, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for in foreign currency. The amounts in foreign currency are translated into sterling at rates ruling at the balance sheet date and the differences arising from the translation of aircraft costs and related foreign currency loans are taken to retained earnings. Under US GAAP, the cost of these aircraft would be fixed in pounds sterling at the rate of exchange ruling at the date of the original acquisition, lease or hire purchase and the exchange gain or loss on the related foreign currency loans would be reflected in income.

### Gains on sale and leaseback transactions

Under UK GAAP, gains arising on sale and leaseback transactions are recognised as part of income to the extent that the sale proceeds do not exceed the fair value of the assets concerned. Gains arising on the portion of the sale proceeds which exceed the fair value are deferred and amortised over the minimum lease term. Under US GAAP, any realised revaluation gains, would be deferred in full and amortised over the minimum lease term.

### Pension costs

Under US GAAP, the cost of providing pensions is attributed to periods of service in accordance with the benefit formulae underlying the pension plans. The resultant projected benefit obligation is matched against the current value of the underlying plan assets and unrecognised actuarial gains and losses in determining the pension cost or credit for the year. The net periodic pension costs for these plans for the year ended March 31, 2002 amounted to £111 million (2001: £111 million) under UK GAAP compared with an estimated credit of £125 million (2001: credit of £15 million) under FAS 87 'Employers' Accounting for Pensions'. The resultant decrease in operating costs of £236 million (2001: decrease of £126 million), net of related deferred tax charge of £71 million (2001: charge £38 million), would increase net income under US GAAP by £165 million (2001: increase of £88 million), and would be reflected in the consolidated balance sheet as an increase in accrued pension costs.

### Capitalised operating leases

Under UK GAAP, certain aircraft operating leases have been capitalised and the related liabilities included in finance lease obligations and the resulting assets are being depreciated over the remaining term of the lease. Under US GAAP, such leases would be classified as operating leases and neither the capital element nor the associated liability would be brought onto the balance sheet.

### Quasi-subsiary

Under UK GAAP, where an entity, though not fulfilling the legal definition of a subsidiary, gives rise to benefits for the group that are, in substance, no different than those that would arise were that entity to be a subsidiary, that entity is classified as a quasi-subsiary. Under US GAAP, such an entity would be treated as an associated undertaking and, accordingly, the results of British Airways' quasi-subsiary would be accounted for as an associated undertaking.

### Associated undertakings

Adjustments made in respect of associated undertakings accounted for under UK GAAP to bring them into line with the US GAAP accounting principles are as set out above.

### Trade investments

Under UK GAAP, trade investments are stated at cost less provision for permanent diminution in value. Under US GAAP, trade investments classified as available for sale are stated at market value and the unrealised gains/losses are accounted for as other comprehensive income in shareholders' equity.

### Investment in own shares

Under UK GAAP, company shares held for the purposes of employee share ownership plans to meet future requirements of employee share schemes including the Long Term Incentive Plan are recorded in the balance sheet as fixed asset investments. Under US GAAP such shares are recorded in the balance sheet as a reduction of shareholders' equity.



# United States generally accepted accounting principles (US GAAP) information continued

## Stock compensation

FIN 44 'Accounting for Certain Transactions involving Stock Compensation' has been effective from July 1, 2000, and provides interpretative guidance on accounting for stock – based compensation. The company has not entered into any transactions involving share capital that would be accounted for under FIN 44, since its implementation, and hence there is no impact on the financial statements for US GAAP purposes.

## Frequent Flyer revenue

Under US GAAP, following the implementation of SAB 101 'Revenue Recognition in Financial Statements', a proportion of frequent flyer revenue is deferred until the frequent flyer airmiles are redeemed. The cumulative effect of this adjustment for the periods prior to April 1, 1999 was dealt with in the determination of net income for the year ended March 31, 2000.

## Financial instruments

Under UK GAAP the fair value of most derivative instruments are not reported on the group balance sheet and the gain or loss arising is reported in earnings as the instrument crystallises. Effective from April 1, 2001, the group adopted 'FAS 133', under which the fair value of all derivative instruments must be reported as part of shareholders' equity. As none of the group's derivative instruments have been designated as hedges any changes in the fair value of the derivative instrument must be reported through net income.

## Deferred tax

British Airways provides for deferred tax in accordance with FRS 19 on all timing differences with the exception of gains on revaluations of fixed assets or where potentially taxable gains have been rolled over where there is no commitment to dispose of the relevant asset. Deferred tax assets are recognised where it is considered more likely than not that there will be suitable taxable profits from which to offset the timing differences.

Under US GAAP deferred tax is generally provided on a full liability basis on all temporary differences between the accounting and tax bases of the group's assets and liabilities.

The estimated effect of the significant adjustments to net income and to shareholders' equity which would be required if US GAAP were to be applied instead of UK GAAP are summarised on pages 57 and 59.

# Net (loss)/income under US GAAP

For the year ended March 31, 2002

	Group			
	2002	2001	2002	2001
	£ million	Restated £ million	\$ million*	Restated \$ million*
(Loss)/income for the year as reported in the group profit and loss account	(142)	67	(202)	96
<b>Adjustments:</b>				
<b>Other revenue</b>				
Deferred frequent flyer revenue	(22)	(15)	(31)	(21)
<b>Depreciation and amortisation</b>				
Goodwill set off in respect of subsidiary undertakings	(11)	(11)	(16)	(16)
Goodwill set off in respect of associated undertakings	(2)	(1)	(3)	(1)
Write back of goodwill amortised and impaired in prior years on Air Liberté		56		80
Fleet	10	10	14	14
Finance leased aircraft	30	37	43	53
Property	4	4	6	6
	31	95	44	136
Aircraft operating lease costs	(63)	(87)	(90)	(124)
<b>Equity accounting of associated undertakings</b>				
Share of results of associated undertakings	(13)	1	(19)	1
Share of tax of associated undertakings	4	(1)	6	(1)
	(9)		(13)	
Interest payable	37	40	53	57
Pension costs	236	126	336	180
<b>Exchange gains/(losses)</b>				
Arising on translation of aircraft-related loans	(8)	(152)	(11)	(217)
Changes in the fair value of derivative instruments	41	(4)	58	(6)
	33	(156)	47	(223)
<b>Income/(loss) on disposal of tangible fixed assets</b>				
Arising on disposal of revalued property	15	(7)	21	(10)
Arising on sale and leaseback transactions	5	7	7	10
Loss on disposal of FRS 5 aircraft		(12)		(17)
	20	(12)	28	(17)
<b>Profit on disposal of investments</b>				
Disposal of interests in associated undertakings	2		3	
Disposal of interests in subsidiary undertakings	3		4	
	5		7	
<b>Deferred tax</b>				
Effect of the above adjustments	(66)	(25)	(94)	(36)
Effect of differences in methodology	(189)	193	(269)	275
	(255)	168	(363)	239
	13	159	18	227
<b>Net (loss)/income as adjusted to accord with US GAAP</b>	<b>(129)</b>	<b>226</b>	<b>(184)</b>	<b>323</b>
Number of shares	'000	'000	'000	'000
Basic weighted average number of shares	1,076,042	1,075,496	1,076,042	1,075,496
Diluted weighted average number of shares	1,077,966	1,085,163	1,077,966	1,085,163

\* US\$ amounts are included for information only.

Translation rate £1=\$1.42 £1=\$1.43

# Net (loss)/income under US GAAP<sup>continued</sup>

For the year ended March 31, 2002

	Group			
	2002	2001	2002	2001
		<i>Restated</i>		<i>Restated</i>
	pence	<i>pence</i>	cents*	<i>cents*</i>
Net (loss)/income per ordinary share as so adjusted basic				
(Loss)/income as adjusted to accord with US GAAP	(12.0)	21.0	(17.1)	29.9
Net (loss)/income per ordinary share as so adjusted diluted				
(Loss)/income as adjusted to accord with US GAAP	(12.0)	20.8	(17.1)	29.7
Net (loss)/income per American depositary share as so adjusted basic				
(Loss)/income as adjusted to accord with US GAAP	(120.0)	210.0	(171.0)	299.0
Net (loss)/income per American depositary share as so adjusted diluted				
(Loss)/income as adjusted to accord with US GAAP	(120.0)	208.0	(171.0)	297.0
* US\$ amounts are included for information only.			Translation rate	£1=\$1.42    £1=\$1.43

# Shareholders' equity under US GAAP

At March 31, 2002

	Group			
	2002	2001	2002	2001
	£ million	<i>Restated</i> £ million	\$ million*	<i>Restated</i> \$ million*
Shareholders' equity as reported in the group balance sheet	2,016	2,121	2,870	3,023
<b>Adjustments:</b>				
<b>Intangible assets</b>				
Goodwill set off in respect of subsidiary undertakings				
<i>Cost</i>	439	448	625	639
<i>Amortisation</i>	(145)	(137)	(206)	(195)
	294	311	419	444
<b>Tangible assets</b>				
Cost				
<i>Fleet</i>	(1,220)	(1,215)	(1,737)	(1,732)
<i>Property and equipment</i>	(374)	(398)	(532)	(568)
	(1,594)	(1,613)	(2,269)	(2,300)
Amortisation				
<i>Fleet, property and equipment</i>	656	613	934	874
<b>Associated undertakings</b>				
Quasi-subsiary				
	53	52	75	74
Net equity				
	(14)	(16)	(20)	(23)
Goodwill set off in respect of associated undertakings				
<i>Cost</i>	71	80	101	114
<i>Amortisation</i>	(18)	(16)	(26)	(23)
	53	64	75	91
Trade investments				
	2	39	3	56
Investment in own shares				
	(25)	(25)	(36)	(36)
<b>Current assets</b>				
Cash, short-term loans and deposits				
	(11)	(8)	(16)	(11)
Fair value of derivative instruments				
	41		58	
<b>Current liabilities</b>				
Loans, finance leases and hire purchase arrangements				
	67	58	95	83
Unredeemed frequent flyer liabilities				
	(173)	(151)	(246)	(215)
Other creditors				
	19	5	27	7
Proposed dividends				
		138		197
Pension cost accruals				
	372	136	530	194
Accruals and deferred income				
	7	7	10	10
<b>Long-term liabilities</b>				
Loans, finance leases and hire purchase arrangements				
	419	474	596	676
Accruals and deferred income				
	(6)	(10)	(9)	(14)
<b>Provisions for liabilities and charges</b>				
Deferred tax				
<i>Effect of the above adjustments</i>	(45)	(5)	(64)	(7)
<i>Effect of differences in methodology</i>	(60)	144	(86)	206
	(105)	139	(150)	199
	55	213	76	306
Shareholders' equity as adjusted to accord with US GAAP	2,071	2,334	2,946	3,329

\* US\$ amounts are included for information only.

Translation rate                      £1=\$1.42      £1=\$1.43

# Operating and financial statistics (Note 1)

For the five years ended March 31, 2002

Airline operations		2002	2001	2000	1999	1998
<b>Traffic and capacity</b>						
Revenue passenger km (RPK)	m	106,270	123,197	127,425	125,951	113,045
Available seat km (ASK)	m	151,046	172,524	183,158	178,820	159,921
Passenger load factor	%	70.4	71.4	69.6	70.4	70.7
Cargo tonne km (CTK)	m	4,033	4,735	4,584	4,329	4,221
Total revenue tonne km (RTK)	m	14,632	16,987	17,215	16,831	15,406
Total available tonne km (ATK)	m	22,848	25,196	25,840	25,114	22,403
Overall load factor	%	64.0	67.4	66.6	67.0	68.8
Passengers carried	'000	40,004	44,462	46,578	45,049	40,955
Tonnes of cargo carried	'000	755	914	909	869	827
Frequent flyer RPKs as a percentage of total RPKs (Note 2)	%	3.7	2.6	2.0	2.2	2.1
Revenue aircraft km (Note 3)	m	685	737	742	669	640
Revenue flights (Note 3)	'000	492	499	538	439	420
Break-even overall load factor	%	65.0	64.4	65.9	63.4	64.4
<b>Financial</b>						
Passenger revenue per RPK	p	6.67	6.37	5.91	5.99	6.45
Passenger revenue per ASK	p	4.69	4.55	4.11	4.22	4.56
Cargo revenue per CTK	p	11.98	12.22	12.14	12.99	14.11
Average fuel price (US cents/US gallon)		81.29	103.94	71.46	48.66	64.70
<b>Operations</b>						
Unduplicated route km (Note 3)	'000	814	755	751	761	820
Punctuality – within 15 minutes (Note 3)	%	81	79	81	79	80
Regularity (Note 3)	%	98.6	98.4	98.9	98.8	98.0
<b>Total group operations</b>						
		2002	2001	2000	1999	1998
<b>Financial</b>						
Interest cover	times	0.3	1.7	1.0	1.7	4.5
Dividend cover	times	n/a	0.6	(0.1)	1.1	2.6
Operating margin	%	(1.3)	4.1	0.9	5.0	5.8
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR)	m	1,128	1,509	1,130	1,427	1,385
Net debt/total capital ratio	%	66.0	64.5	63.9	62.2	58.1
Total traffic revenue per RTK	p	51.74	49.64	47.01	48.04	51.16
Total traffic revenue per ATK	p	33.14	33.47	31.32	32.20	35.18
Net operating expenditure per RTK	p	52.49	47.40	46.52	45.42	47.88
Net operating expenditure per ATK	p	33.62	31.96	30.99	30.44	32.93
<b>Operations</b>						
Average manpower equivalent (MPE)		60,468	62,844	65,640	64,051	60,770
RTKs per MPE	'000	242.0	270.3	262.3	262.8	253.5
ATKs per MPE	'000	377.9	400.9	393.7	392.1	368.7
Aircraft in service at year end		360	338	366	335	330
Aircraft utilisation (average hours per aircraft per day)		8.32	8.79	9.79	8.71	8.48

## Notes:

1 Operating statistics do not include those of associated undertakings (Qantas Airways, Comair and Iberia) and franchisees (British Mediterranean Airways, GB Airways, Loganair, Maersk Air UK, Regional Air, Sun Air (Scandinavia) and Zambian Air Services).

2 The carriage of passengers on Frequent Flyer Programmes is evaluated on a ticket by ticket basis.

3 Excludes go.

n/a = not applicable

# Five year summaries

For the five years ended March 31, 2002

## Group profit and loss account

£ million	2002	2001	2000	1999	1998
		<i>Restated</i>	<i>Restated</i>	<i>Restated</i>	<i>Restated</i>
Turnover	8,340	9,278	8,940	8,892	8,642
Operating expenditure	(8,450)	(8,898)	(8,856)	(8,450)	(8,138)
Operating profit	(110)	380	84	442	504
Share of operating profit of associates	22	64	75	62	69
Other income and charges	21	1	5	27	19
Profit/(loss) on sale of fixed assets and investments	145	(69)	249	51	169
Net interest payable	(278)	(226)	(408)	(357)	(181)
Profit before tax	(200)	150	5	225	580
Tax	71	(69)	(56)	(54)	(228)
(Loss)/profit after tax	(129)	81	(51)	171	352
Minority interests	(1)	(2)			13
Non equity minority interests	(12)	(12)	(11)		
(Loss)/profit for the year	(142)	67	(62)	171	365
Dividends		(193)	(195)	(191)	(176)
Retained (loss)/profit for the year	(142)	(126)	(257)	(20)	189
Earnings per share					
Basic (loss)/earnings per share	(13.2)p	6.2p	(5.8)p	16.2p	35.4p
Diluted (loss)/earnings per share	(13.2)p	6.2p	n/a	16.1p	33.6p
Dividends per share		17.9p	17.9p	17.9p	16.6p

## Geographical analysis of group turnover and operating profit

£ million	By area of destination				
	2002	2001	2000	1999	1998
Turnover					
Europe	3,208	3,388	3,400	3,409	3,214
The Americas	2,863	3,450	3,253	3,272	3,073
Africa, Middle East and Indian sub-continent	1,262	1,304	1,220	1,133	1,118
Far East and Australasia	1,007	1,136	1,067	1,078	1,237
	8,340	9,278	8,940	8,892	8,642
Operating profit					
Europe	(244)	(172)	(310)	(166)	(127)
The Americas	144	470	308	451	395
Africa, Middle East and Indian sub-continent	91	92	62	124	125
Far East and Australasia	(101)	(10)	24	33	111
	(110)	380	84	442	504

The profit and loss accounts and balance sheets for 1998 to 2001 have been restated for FRS 19 'Deferred Tax'.

n/a = not applicable

# Five year summaries continued

For the five years ended March 31, 2002

## Group balance sheet

£ million	2002	2001 <i>Restated</i>	2000 <i>Restated</i>	1999 <i>Restated</i>	1998 <i>Restated</i>
<b>Fixed assets</b>					
Intangible assets	105	60	62		
Tangible assets	10,509	10,662	10,227	9,777	8,609
Investments	489	426	567	402	388
	11,103	11,148	10,856	10,179	8,997
<b>Current assets</b>	2,559	2,550	2,659	2,645	2,303
Creditors: amounts falling due within one year	(3,201)	(3,308)	(3,366)	(3,048)	(2,821)
<b>Net current liabilities</b>	(642)	(758)	(707)	(403)	(518)
<b>Total assets less current liabilities</b>	10,461	10,390	10,149	9,776	8,479
Creditors: amounts falling due after more than one year	(7,097)	(6,901)	(6,728)	(6,356)	(5,128)
Provision for deferred tax	(1,031)	(1,094)	(1,047)	(1,006)	(971)
Provisions for liabilities and charges	(126)	(70)	(81)	(65)	(30)
	2,207	2,325	2,293	2,349	2,350
<b>Capital and reserves</b>					
Called up share capital	271	271	270	268	260
Reserves	1,745	1,850	1,830	2,081	2,090
Minority interest	9	18	16		
Non equity minority interest	182	186	177		
	2,207	2,325	2,293	2,349	2,350

## Group cash flow statement

£ million	2002	2001	2000	1999	1998
Cash inflow from operating activities	866	1,251	1,186	1,241	736
Dividends received from associates	16	33	44	11	12
Government compensation	22				
Returns on investments and servicing of finance	(327)	(342)	(315)	(309)	(269)
Tax	(1)	15	(2)	(40)	(134)
Capital expenditure and financial investment	94	(457)	(146)	(118)	161
Acquisitions and disposals	(19)	26	(218)	(6)	75
Equity dividends paid	(137)	(194)	(242)	(113)	(148)
<b>Net cash inflow before management of liquid resources and financing</b>	514	332	307	666	433
Management of liquid resources	(301)	159	9	(363)	(90)
Financing	(217)	(521)	(319)	(235)	(372)
<b>(Decrease)/increase in cash</b>	(4)	(30)	(3)	68	(29)

# Aircraft fleet

Number in service with group companies at March 31, 2002

	Operating leases off balance sheet		Total	Changes since March 01	Future deliveries	Options	2001-02 revenue hours flown	Average hours per aircraft/day	Average age (years)	
	On balance sheet aircraft	Extendible								Other
<b>Airline operations (Note 1, 2 and 8)</b>										
Concorde (Note 3)	7		7				1,111	1.75	25.3	
Boeing 747-200				(13)			22,190	9.66		
Boeing 747-400	56		56				245,474	12.08	7.9	
Boeing 777-200	45		45	5			188,653	12.08	3.6	
Boeing 767-300 (Note 4)	21		21				65,848	9.73	9.2	
Boeing 757-200	20	2	23	(22)			90,926	6.98	10.1	
Airbus A318					6					
Airbus A319 (Note 5)	21	10	33	12	6	113	78,031	7.63	1.4	
Airbus A320	10		13	3	17		23,989	6.33	10.2	
Airbus A321					4					
Boeing 737-300 (Note 6)			27	(11)			70,136	6.99	6.5	
Boeing 737-400	20	5	31	(3)			95,605	7.87	10.0	
Boeing 737-500			10				25,519	6.99	9.7	
Turbo Props (Note 7)			44	23			93,718	5.63	9.1	
Embraer RJ145	15	5	29	22	1	17	50,365	5.50	2.0	
Avro RJ100		16	16	1			40,801	7.07	2.6	
British Aerospace 146	5		5	5			6,769	4.12	15.6	
Hired aircraft							30,046			
<b>Group Total</b>	<b>220</b>	<b>38</b>	<b>102</b>	<b>360</b>	<b>22</b>	<b>34</b>	<b>130</b>	<b>1,129,181</b>	<b>8.32</b>	<b>7.1</b>

## Notes:

- 1 Includes those operated by British Airways Plc, British Airways (European Operations at Gatwick) Ltd, Brymon Airways Ltd, CityFlyer Express, Deutsche BA and British Regional Air Lines.
- 2 Excludes 5 Boeing 757 – 200, 5 Boeing 747 – 200, stood down pending disposal or return to lessor, and 1 Boeing 747 – 400 sub-leased to Qantas.
- 3 Includes 3 Concorde currently stood down pending safety modifications.
- 4 Includes 4 Boeing 767 – 300 temporarily out of service.
- 5 Certain future deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
- 6 Net reduction includes 13 Boeing 737 – 300 aircraft disposed of with go.
- 7 Includes 12 Jetstream 41 aircraft, 13 British Aerospace ATP aircraft, 5 ATR 72 aircraft and 14 de Havilland Canada DHC-8 aircraft.
- 8 On the purchase of British Regional Air Lines 49 aircraft were acquired of which 47 were in service and comprised of 13 Jetstream 41 aircraft, 13 British Aerospace ATP aircraft, 18 Embraer RJ145 aircraft and 3 British Aerospace 146 aircraft were acquired.



# Shareholder information

## Shareholders

As at May 16, 2002 there were 258,818 shareholders (May 15, 2001: 265,107). An analysis is given below.

Size of shareholding	Percentage of shareholders	Percentage of shares	Classification of shareholding	Percentage of shareholders	Percentage of shares
1 – 1,000	85.40	6.48	Individuals	97.20	14.96
1,001 – 5,000	13.09	6.08	Bank or Nominee	2.28	82.15
5,001 – 10,000	0.90	1.49	Insurance companies	0.03	0.30
10,001 – 50,000	0.35	1.67	Pension trusts	0.01	0.47
50,001 – 100,000	0.07	1.14	Investment trusts	0.03	0.02
100,001 – 250,000	0.07	2.81	Other corporate bodies	0.45	2.10
250,001 – 500,000	0.04	3.85			
500,001 – 750,000	0.02	2.73			
750,001 – 1,000,000	0.01	2.03			
Over 1,000,000	0.05	71.72			
	100.00	100.00		100.00	100.00

Franklin Resources Inc., The Capital Group Companies Inc. Wellington Management Company and J P Morgan Securities have non-beneficial interests in 6.11 per cent, 8.98 per cent, 6.29 per cent and 5.04 per cent of the shares of the company respectively.

## General Information

### Financial Calendar

Financial year end March 31, 2002

Annual General Meeting July 16, 2002

### Announcement of 2001-2002 results and dividends

First quarter results to June 30, 2002 August 2002

Second quarter results to September 30, 2002 November 2002

Interim dividend November 2002 (payable January 2003)

Third quarter results to December 31, 2002 February 2003

Preliminary announcement mid May 2003

Report and Accounts June 2003

Final dividend May 2003 (payable July 2003)

### Registered Office

Waterside, PO Box 365, Harmondsworth, UB7 OGB

Registered number – 1777777

### Outside advisers

Company Registrars: Computershare Investor Services Plc, PO Box 82, Caxton House, Redcliffe Way, Bristol, BS99 7NH

ADR Depository: J P Morgan Service Centre, PO Box 43013, Providence, RI 02940 – 3013, USA

### Unsolicited mail

British Airways is obliged by law to make its share register available on request to other organisations who may then use it as a mailing list. This may result in your receiving unsolicited mail. If you wish to limit the receipt of unsolicited mail you may do so by writing to the Mailing Preference Service, an independent organisation whose services are free to you. Once your name and address have been added to its records, it will advise the companies and other bodies which support the service that you no longer wish to receive unsolicited mail.

If you would like more details please write to: The Mailing Preference Service, FREEPOST 22, London W1E 7EZ.

British Airways asks organisations which obtain its register to support this service.

### Sharegift

Shareholders with small numbers of shares may like to consider donating their shares to charity under ShareGift, administered by The Orr Mackintosh Foundation. Details are available from the Company Registrars.

# Glossary

Airline Operations	This includes British Airways Plc, British Airways (European Operations at Gatwick) Ltd, Brymon Airways Limited, CityFlyer Express Limited, Deutsche BA Luftfahrtgesellschaft GmbH, British Regional Air Lines Limited from May 10, 2001, Go Fly Limited until June 14, 2001 and Air Liberté for historic comparatives.
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown.
Available tonne kilometres (ATK)	The number of tonnes (2,240 lb) of capacity available for the carriage of revenue load (passenger and cargo) multiplied by the distance flown.
Revenue passenger kilometres (RPK)	The number of revenue passengers carried multiplied by the distance flown.
Cargo tonne kilometres (CTK)	The number of revenue tonnes of cargo (freight and mail) carried multiplied by the distance flown.
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown.
Load factor	The percentage relationship of revenue load carried to capacity available.
Passenger load factor	RPK expressed as a percentage of ASK.
Overall load factor	RTK expressed as a percentage of ATK.
Break-even load factor	The load factor required to equate total traffic revenue with operating costs.
Frequent flyer RPKs as a percentage of total RPKs	The amount of frequent flyer RPKs expressed as a percentage of total RPKs is indicative of the proportion of total passenger traffic that is represented by redemption of frequent flyer points in the year.
Revenue per RPK	Passenger revenue from airline operations divided by airline RPK.
Total traffic revenue per RTK	Revenue from total traffic (scheduled and non-scheduled) divided by RTK.
Total traffic revenue per ATK	Revenue from total traffic (scheduled and non-scheduled) divided by ATK.
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule.
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.
Unduplicated route kilometres	All scheduled flight stages counted once, regardless of frequency or direction.
Operating cash flow/market value of assets	Group operating profit/(loss) plus depreciation, less rentals for aircraft and property, divided by market value of assets.
Interest cover	The number of times profit before taxation and net interest payable covers the net interest payable.
Dividend cover	The number of times profit for the year covers the dividends paid and proposed.
Operating margin	Operating (loss)/profit as a percentage of turnover.
Net debt	Loans, finance leases and hire purchase arrangements, plus Convertible Capital Bonds, net of short-term loans and deposits and cash less overdrafts.
Total capital	Capital and reserves plus net debt.
Net debt/total capital ratio	Net debt as a ratio of total capital.
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors.
EBITDAR	Earnings before interest, tax, depreciation, amortisation and rentals.
n/a	Not applicable.

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Our investor relations website is  
[www.bashares.com](http://www.bashares.com)

Our website for individual shareholders is  
[www.bashareholders.com](http://www.bashareholders.com)

BA Reservations: 0845 77 333 77 Other Enquiries: 0845 77 999 77